

**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**



**FILED**

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Application of SAN DIEGO GAS & ELECTRIC )  
COMPANY for authority to update its gas and )  
electric revenue requirement and base rates )  
effective on January 1, 2008 )  
(U 902-M) )  
\_\_\_\_\_ )

Application No. 06-12-\_\_\_\_

A0612009

**GENERAL RATE CASE  
APPLICATION OF  
SAN DIEGO GAS & ELECTRIC COMPANY**

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APPLICATION OF  
SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M)**

San Diego Gas & Electric Company ("SDG&E") respectfully requests authority to update its gas and electric revenue requirement and base rates, effective January 1, 2008, and to implement a Post Test Year ("PTY") ratemaking mechanism for subsequent years. Incorporated in this filing is a Test Year (TY) 2008 cost of service study, pursuant to which SDG&E's rates should be set beginning January 1, 2008.

The requested electric revenue increase will result in bill increases for the typical SDG&E residential electric customer using 500 kWh per month in the Inland climate zone of \$1.67 (2.4 percent bill increase) in the summer billing period and \$2.37 (3.3 percent bill increase) in the winter billing period. The requested gas revenue increase will result in bill increases for the typical SDG&E residential gas customer using 40 therms per month of \$3.86 (7.2 percent bill increase).

The proposed PTY ratemaking mechanism utilizes a starting point set by SDG&E's Test Year 2008 General Rate Case (GRC) outcome, and would be used to set rates beginning January 1, 2009. Rates in the subsequent five years will be adjusted annually using separate update formulas for capital-related and operations and maintenance (O&M) expenses.

SDG&E specifically seeks authority to adjust its 2008 revenue requirement consistent with the schedule requirements set forth in the Rate Case Plan and its 2004 Cost of Service Decision D.04-12-015. SDG&E sets forth below additional detail on its proposal and a recommended procedural schedule.

## I.

### EXECUTIVE DIRECTOR'S ACCEPTANCE OF THE NOTICE OF INTENT

On August 1, 2006, SDG&E tendered its 2008 GRC NOI in accordance with the Rate Case Plan. On October 20, 2006, the Commission's Executive Director accepted the tendered documents for filing.

## II.

### SUMMARY OF RELIEF REQUESTED AND SUPPORTING TESTIMONY

SDG&E seeks to revise its authorized revenue requirements, effective on January 1, 2008, to recover the reasonable costs SDG&E will incur in 2008 to own and operate the facilities that generate and distribute electricity to its customers, distribute gas, and to fulfill SDG&E's customer service function.<sup>1</sup> Attached to this Application is the prepared direct testimony of SDG&E's witnesses (listed by subject area). SDG&E's witnesses have prepared workpapers supporting SDG&E's exhibits in accordance with the Rate Case Plan. SDG&E intends to request inclusion of the workpapers in the record of the 2008 Test Year GRC.

Exh. #	SDG&E TESTIMONY TOPIC	WITNESS
SDGE-1	POLICY OVERVIEW	Debra L. Reed
SDGE-2	GENERATION – O&M/CAPITAL	Daniel S. Baerman
SDGE-3	GENERATION – SONGS	Michael R. Olson
SDGE-4	ELECTRIC DISTRIBUTION – O&M/CAPITAL	Caroline A. Winn
SDGE-5	GAS TRANSMISSION – O&M/CAPITAL	David G. Taylor
SDGE-6	ENGINEERING – O&M/CAPITAL	Joseph M. Rivera
SDGE-7	GAS DISTRIBUTION – O&M/CAPITAL	Daniel J. Rendler
SDGE-8	GAS & ELECTRIC PROCUREMENT	Theresa C. Farrelly
SDGE-9	CUSTOMER SERVICES OPERATIONS – O&M/CAPITAL	Ed Fong
SDGE-10	CUSTOMER SERVICES INFORMATION – O&M/CAPITAL	Joe Velasquez
SDGE-11	EMERGENCY PREPAREDNESS	James J. Boland
SDGE-12	SUPPORT SERVICES	Richard A. Krumvieda
SDGE-13	HUMAN RESOURCES AND PENSIONS	G. Joyce Rowland/ Joseph A. Householder
SDGE-14	INFORMATION TECHNOLOGY O&M/CAPITAL	J. Chris Baker
SDGE-15	A&G EXPENSES	Scott Kyle

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<sup>1</sup> Throughout the remainder of this Application SDG&E will use the term "distribution" to refer to both the distribution and customer service function.

<b>Exh. #</b>	<b>SDG&amp;E TESTIMONY TOPIC</b>	<b>WITNESS</b>
<b>SDGE/SCG-16</b>	<b>SHARED SERVICES EXPENSES</b>	
	Chapter 1: Policy	Joan T. Jones
	Chapter 2: A&G	Scott Kyle
	Chapter 3: Information Technology	J. Chris Baker
	Chapter 4: Support Services	Richard A. Krumvieda
	Chapter 5: Emergency Preparedness	James J. Boland
	Chapter 6: Customer Services Information (SCG)	Phillip E. Baker
	Chapter 7: Customer Services Information (SDGE)	Joe Velasquez
	Chapter 8: Customer Services Operations (SCG)	J. Patrick Petersilia
	Chapter 9: Customer Services Operations (SDGE)	Ed Fong
	Chapter 10: Engineering	Joseph M. Rivera
	Chapter 11: Gas Distribution	Daniel J. Rendler
	Chapter 12: Gas Transmission	David G. Taylor
	Chapter 13: Electric Distribution	Caroline A. Winn
	Chapter 14: Billing, Overhead and Escalation	Edward J. Reyes
<b>SDGE/SCG-17</b>	<b>CORPORATE CENTER</b>	Monica P. Haas
<b>SDGE-18</b>	<b>DEPRECIATION</b>	Rodger E. Larsen
<b>SDGE-19</b>	<b>TAXES</b>	Randall G. Rose
<b>SDGE-20</b>	<b>SHARED ASSETS</b>	Cheryl A. Shepherd
<b>SDGE-21</b>	<b>RATE BASE (EXCLUDING WORKING CASH)</b>	Garry G. Yee
<b>SDGE-22</b>	<b>WORKING CASH</b>	Scott Kyle
<b>SDGE-23</b>	<b>MISCELLANEOUS REVENUES</b>	Kenneth J. Deremer
<b>SDGE-24</b>	<b>ESCALATION</b>	Scott R. Wilder
<b>SDGE-25</b>	<b>SEGMENTATION &amp; REASSIGNMENT RATES</b>	Paul D. Malin
<b>SDGE-26</b>	<b>SDG&amp;E CUSTOMERS</b>	Gregory K. Katsapis
<b>SDGE-27</b>	<b>SDG&amp;E REVENUES AT PRESENT AND PROPOSED RATES</b>	Robert Hansen/Allison Smith
<b>SDGE-28</b>	<b>SUMMARY OF EARNINGS</b>	Deborah A. Yee
<b>SDGE-29</b>	<b>REGULATORY ACCOUNTS</b>	Steve Rahon
<b>SDGE-30</b>	<b>PERFORMANCE INCENTIVES – SAFETY</b>	James J. Boland
<b>SDGE-31</b>	<b>PERFORMANCE INCENTIVES – ELECTRIC RELIABILITY</b>	Caroline A. Winn
<b>SDGE-32</b>	<b>PERFORMANCE INCENTIVES – CUSTOMER SERVICE</b>	Ed Fong
<b>SDGE-33</b>	<b>PRODUCTIVITY</b>	Mark N. Lowry
<b>SDGE-34</b>	<b>POST-TEST YEAR RATEMAKING</b>	Michael M. Schneider

The prepared direct testimony of Debra L. Reed provides a policy level summary of the Application and supporting testimony.

SDG&E witness Daniel Baerman testifies as to SDG&E's non-nuclear generation-related O&M and capital revenue requirement.

The prepared direct testimony of SDG&E witness Michael R. Olson establishes SDG&E's Test Year 2008 Nuclear O&M expenses for San Onofre Nuclear Generating

Station (SONGS), and Test Year 2008 Nuclear Capital additions, all of which result from SDG&E's 20% ownership share of SONGS.

The prepared direct testimony of SDG&E witness Caroline A. Winn addresses electric distribution issues. Ms. Winn discusses the impacts of major cost drivers on SDG&E's Electric Distribution system. These drivers include maintenance and replacement of infrastructure, a maturing workforce, technology obsolescence and necessary replacement, system growth, and changes in the regulatory environment.

Witness David G. Taylor addresses SDG&E's 2008 costs associated with the operation and maintenance of its Gas Transmission system.

Witness Joseph M. Rivera's Gas Engineering testimony addresses costs associated with SDG&E's compliance with pipeline integrity and other regulatory mandates.

The prepared direct testimony of witness Daniel J. Rendler addresses SDG&E's Gas Distribution forecasts of capital expenditures and expenses required to operate and maintain its gas distribution system and to construct new gas distribution facilities.

The prepared direct testimony of SDG&E witness Terry Farrelly addresses SDG&E's gas and electric procurement operations.

The prepared direct testimony of SDG&E witness Ed Fong addresses Customer Service Operations costs. Examples of service functions include the Customer Contact Center, Meter Reading, Billing Services, Credit and Collections, and Customer Service Technology and Support, among others.

The prepared direct testimony of SDG&E witness Joe Velasquez addresses Customer Services Information costs.

Witness James J. Boland addresses SDG&E's emergency preparedness.

The prepared direct testimony of SDG&E witness Richard A. Krumvieda presents SDG&E's Support Services costs, including Fleet Services, Supply Management / Diverse Business Enterprises, Real Estate and Facilities, Safety and Emergency Services (not including Emergency Preparedness), Environmental Services, and Business Solutions Support. Mr. Krumvieda presents the Operating and Clearing expenses and capital costs of the Support Services activities.

The prepared direct testimony of SDG&E witness G. Joyce Rowland addresses Compensation and Benefits. This testimony provides a review of the total compensation programs at SDG&E, employing an analysis of a recent total compensation study conducted, in conjunction with the CPUC's Division of Ratepayer Advocates ("DRA"), by Hewitt Associates, a nationally recognized compensation and benefits consulting firm. It includes a description of SDG&E's total compensation philosophy, a discussion of pay components that make up SDG&E's total cash compensation programs, a review of internal compensation controls, and a detailed review of SDG&E's various benefit programs.

The prepared direct testimony of SDG&E witness Joseph A. Householder addresses pension and post-retirement benefits other than pensions (PBOP) issues.

The prepared direct testimony of SDG&E witness J. Chris Baker presents the test year 2008 forecast of O&M expenses and capital expenditures of the Information Technology Division as they pertain to SDG&E.

The prepared direct testimony of SDG&E witness Joan T. Jones addresses Utility Shared Services policy issues. Ms. Jones's testimony discusses shared services provided by SDG&E organizations to Southern California Gas Company (SCG) and other Sempra Energy affiliates.

In testimony on shared services, each of the witnesses noted above with shared service expenses discusses how the shared services policies are implemented and associated costs billed to and from their functional areas. Witness Edward J. Reyes testifies as to the overheads and escalation of shared services, and the billing thereof.

Witness Scott Kyle's testimony addresses Administrative and General ("A&G") costs. Mr. Kyle is sponsoring the labor and associated non-labor expenses of general office personnel. This includes the Controller and Accounting areas, Human Resources, Labor Relations, Regulatory Affairs, Strategic Planning, and Senior Management support. These general office functions provide a wide range of corporate support services to the utility operating areas and ensure that both SDG&E is in compliance with existing and new governmental, legal, and regulatory requirements. Mr. Kyle's A&G testimony also addresses Personal Liability/Property Damage casualty claims payments, and some general miscellaneous expenses.



The prepared direct testimony of witness Monica P. Haas addresses the manner in which Corporate Center shared service costs are allocated. Ms. Haas uses three primary methods to allocate costs: direct assignment, causal / beneficial factors, or a multi-factor method. Corporate Center costs include the following Divisions: External Affairs & Communications, Finance, Human Resources, Legal and Executive. In addition, Ms. Haas' testimony addresses Business Unit Charge-Ups, Depreciation & Rate of Return ("ROR"), Pension & Benefits, and Insurance.

The prepared direct testimony of SDG&E witness Rodger E. Larsen addresses depreciation and amortization expense and the accumulated provision (reserve) for depreciation and amortization of Electric Distribution and Generation (including Nuclear Plant, Gas Plant, and the related General and Common Plant.

The prepared direct testimony of SDG&E witness Randall G. Rose addresses the forecasted payroll, property, income, and franchise tax expense, including Federal and State income taxes, property tax, payroll taxes, and franchise fees.

The testimony of SDG&E witness Cheryl A. Shepherd addresses Utility Shared Asset policy issues. Ms. Shepherd's testimony discusses the billing of costs related to both recorded and forecasted shared assets.

SDG&E witness Garry G. Yee presents SDG&E's weighted average rate base (excluding working cash) for Electric Distribution, Electric Generation (including Nuclear), and Gas Plant for recorded year 2005, estimated years 2006 and 2007, and Test Year 2008. In addition, Mr. Yee describes the development of the rate base and its components including the various methodologies used to derive the Test Year rate base.

The prepared direct testimony of Scott Kyle contains SDG&E's operating working cash requirements.

Witness Ken Deremer's prepared direct testimony presents SDG&E's 2005 recorded miscellaneous revenues and the forecast of miscellaneous revenues for Test Year 2008.

Witness Scott R. Wilder discusses the proposed cost escalation factors to translate the 2005 cost forecasts into 2008 dollar terms, and the proposed cost escalation for the post-test years 2009 – 2013.

The prepared direct testimony of witness Paul D. Malin primarily addresses the allocation of various “common” costs between electric and gas service functions, as well as how some expenses are reassigned to capital in support of construction efforts.

The prepared direct testimony of SDG&E witness Gregory K. Katsapis provides SDG&E’s forecast of electric customers and electric sales for 2008.

The testimony of Robert Hansen and Allison Smith contain a comparison of revenues at present and proposed rates for electric and gas service, respectively.

SDG&E’s summary of earnings is presented by witness Deborah Yee.

Witness Steve Rahon addresses balancing accounts and memorandum accounts that are relevant to SDG&E’s GRC.

Post-test year ratemaking and performance incentive testimony is addressed in the prepared direct testimony of witness Michael M. Schneider, as summarized below.

### **III.**

#### **SUMMARY OF PROPOSED POST TEST YEAR RATEMAKING MECHANISM**

SDG&E proposes a PTY ratemaking mechanism that, like the traditional GRC mechanism, adjusts the electric and gas authorized revenue requirements in post test years by applying separate formulas to the O&M-related and capital-related revenue requirements. As discussed in the testimony of Mr. Schneider, the revenue requirement adjustments are needed to recover increases in costs during the post test years due to inflation, the need for continued capital spending, and growth in customers, especially given the fact that electric revenues adopted in this proceeding need to be balanced pursuant to PUC §739.10. Under balancing account treatment, revenue changes resulting from increases in sales is returned to customers and thus, revenue increases are not available to offset increases in SDG&E costs during the post test years. SDG&E proposes to continue the revenue balancing account treatment during this GRC period.

The PTY ratemaking mechanism adjusts O&M expenses using utility cost escalation factors and SDG&E customer growth rates with an offset for productivity gains, and adjusts capital-related costs for plant additions based on a three-year average of SDG&E’s historical plant additions as a proxy for future plant additions. This proposed PTY mechanism represents a change from SDG&E’s current mechanism that escalates its total revenue requirement by a general measure of inflation (CPI with

minimum and maximums based on the settlement adopted in D.05-03-023). SDG&E believes that its proposed mechanism does a better job of aligning SDG&E costs and revenues, along with providing proper incentives since the revenue adjustments are based on utility specific O&M and capital cost measures, and include adjustments for customer growth and productivity growth. SDG&E proposes a symmetric earnings sharing mechanism for the post test years. The term of the proposed post test year ratemaking mechanism is five years (2009 to 2013). SDG&E also proposes the continuance of performance indicators for system reliability, employee safety, and customer satisfaction. These performance indicators are outlined below:

Reliability: SDG&E's reliability performance indicators include four separate measures. The first is intended to provide an incentive to ensure that system average interruption duration index ("SAIDI") is maintained at an appropriate level. The second indicator measures the system average interruption frequency index ("SAIFI"). For the third indicator SDG&E has developed a new reliability measure named "SAIDI Exceeding Threshold" or "SAIDET" which is recommended for implementation beginning in 2008. SAIDET is a customer focused index rather than a system wide average index. SDG&E feels that it is important to adopt this measure to focus company resources on customers experiencing the majority of the reliability issues. SAIDET represents the SAIDI minutes attributable to customers experiencing outage durations beyond an annual interruption minute threshold. This third indicator would replace the existing measure of the frequency of momentary interruptions in electric service to SDG&E's customers (known as the momentary average interruption frequency index, or "MAIFI"). Fourth, SDG&E also proposes a new "customer focused" reliability performance indicator in 2008 called ERT, which measures the accuracy of estimated service restoration time. Further description of the Reliability performance indicators is set forth in the prepared direct testimony of Caroline A. Winn.

Employee Safety: In the prepared direct testimony of James J. Boland, SDG&E proposes continuation of the currently adopted performance indicator of the Occupational Safety and Health Administration (OSHA) Recordable Rate for Employee Safety. SDG&E's safety results for the years 2001 through 2005 are also addressed in Mr. Boland's testimony.

Customer Satisfaction: Customer satisfaction performance indicators are set forth in the prepared direct testimony of SDG&E witness Ed Fong. SDG&E proposes the same four penalty/reward performance indicator (with slight modifications for phone contact satisfaction and percentage of field appointments provided) adopted in D.05-03-023 that include both customer satisfaction (phone contact satisfaction and field visit satisfaction) and operational indicators (field service order appointments provided and call center responsiveness). As discussed in Mr. Fong's testimony, SDG&E's 2005 performance results demonstrate that the current performance indicator structure has functioned as intended, which is to provide SDG&E with the incentives to improve service in key customer service dimensions.

#### IV. OTHER ISSUES

##### 1. Balancing Accounts

SDG&E maintains certain accounts that are associated with the GRC and should be addressed in this proceeding. For SDG&E, the relevant regulatory accounts include the Post-Retirement Benefits Other Than Pensions Balancing Account (PBOPBA), Pension Balancing Account (PBA), Interim Call Center Memorandum Account (ICCM), and Interval Metering Program Memorandum Account (IMPMA). SDG&E's prepared direct testimony of Steve Rahon addresses these balancing accounts and proposes appropriate ratemaking treatment for their respective balances.

##### 2. Present And Proposed Rates

SDG&E's application sets forth present and proposed rates in Attachments A through C, as required by the Commission's Rules of Practice and Procedure, Rule 23. Present rates are also used to forecast electric distribution and gas base rate revenue.

**V.**  
**DESCRIPTION OF REVENUE CHANGES**

SDG&E's electric distribution and gas base rate revenue is proposed to be changed by the amount set forth in SDG&E's testimony and supporting workpapers and summarized in the tables below:

**ELECTRIC**

Class of Service	Current Revenue (\$000's)	Proposed Revenue (\$000's)	Percentage Change (%)
	1,301,088	1,410,452	8.41%
Residential			
Small Commercial & Industrial	367,973	391,837	6.49%
Medium & Large Commercial & Industrial	1,164,468	1,222,278	4.96%
Agriculture	13,927	15,106	8.46%
Lighting	17,609	17,858	1.41%
System Total	2,865,065	3,057,531	6.72%

**GAS**

Rate Class	Revenue at Present Rates (thousands\$)	Revenue at Proposed Rates (thousands\$)	Percentage Change (%)	Present Rates (cents/therm)	Proposed Rates (cents/therm)	Percentage Change (%)
Residential	178,966	211,686	18.3	54.863	64.893	18.3
Core C&I	39,817	46,743	17.4	30.677	36.013	17.4
NGV	3,633	3,928	8.1	90.151	97.472	8.1
Subtotal Core	222,416	262,357	18.0	48.348	57.030	18.0
Noncore C&I	9,984	11,289	13.1	11.581	13.095	13.1
EG	42,796	45,788	7.0	4.766	5.099	7.0
Subtotal NonCore	52,779	57,077	8.1	5.363	5.800	8.1
Total System	275,196	319,434	16.1	19.056	22.119	16.1

The proposed post test year ratemaking framework may cause SDG&E's gas rates and electric distribution rates to increase or decrease for calendar years 2009 and beyond, depending upon SDG&E's results under the proposed earnings sharing mechanism and

performance indicators, customer growth and the level of inflation as measured by SDG&E's proposed escalation index, and the adopted levels of productivity adjustment, and the proxy for plant additions based on a three year average of SDG&E's historical plant additions. Revenues are also balanced for electric sales and gas throughput. Because some of these factors are outside of SDG&E's control, at this time it is not possible for SDG&E to state whether future rate changes will be negative or positive.

## **VI.**

### **IMPLEMENTATION**

This GRC application will result in new rates, effective January 1, 2008.

Implementation of the post test year indexing mechanism is described in the prepared direct testimony and workpapers of Michael M. Schneider. SDG&E will file an advice letter in the third quarter of each year specifying the application of the post test year formula and resulting rates to be effective January 1 of the following year. SDG&E will file another advice letter on February 15 of each year, setting forth the results of the performance indicators and the earnings sharing adjustment.

The Rate Case Plan requires electric utilities to submit, as part of the GRC application, cost allocation studies by classes of service and marginal cost data in sufficient detail to allow the development of rates for each customer class, with a complete electric rate design proposal to be filed no later than 90 days after filing of the application, (D.89-01-040, 30 CPUC 2d at 607). For many years SDG&E's electric rate design issues (including cost allocation and marginal cost studies) have been addressed in SDG&E's Rate Design Window (RDW) proceedings, rather than as part of its GRC. SDG&E and the Department of Ratepayer Advocates (DRA) have jointly filed a request with the Commission's Executive Director to consolidate these issues in the next RDW. In D.06-09-031 the CPUC ordered SDG&E its GRC Phase 2 Application on January 31, 2007. SDG&E will address electric marginal costs, revenue allocation and rate design in its Phase 2 filing.

**VII.**  
**COMPLIANCE WITH SENATE BILL 960 RULES,**  
**INCLUDING PROPOSED SCHEDULE**

In compliance with Rule 6(a)(1), which was adopted in response to Senate Bill 960, SDG&E is required to state “the proposed category for the proceeding, the need for hearing, the issues to be considered, and a proposed schedule.” SDG&E proposes to categorize this application as a ratemaking proceeding. SDG&E anticipates that hearings will be necessary. The principal issues to be considered are whether:

1. The proposed revenue requirement for the electric distribution function in 2008 is just and reasonable and the Commission should authorize SDG&E to reflect the adopted revenue requirement in rates;
2. The proposed revenue requirement for the gas distribution function in 2008 is just and reasonable and the Commission should authorize SDG&E to reflect the adopted revenue requirement in rates;
3. The proposed revenue requirement for the electric generation function (including Nuclear) in 2008 is just and reasonable and the Commission should authorize SDG&E to reflect the adopted revenue requirement in rates;
4. SDGE’s proposed regulatory account amortization is just and reasonable;
5. The proposed Post Test Year ratemaking mechanism is just and reasonable and the Commission should authorize SDG&E implement that mechanism by the use of annual advice letters.
6. SDG&E’s proposed performance indicator measures are just and reasonable and should be adopted.

The Rate Case Plan contemplates separate sets of evidentiary hearings on a GRC Applicant’s direct testimony and rebuttal testimony. In recent GRC proceedings the CPUC has consolidated these sets of hearings in the interests of efficiency. Likewise, Southern California Gas Company is contemporaneously filing a General Rate Case and SDG&E anticipates that it will be consolidated with this proceeding. Accordingly, SDG&E suggests the following proposed schedule:

December 2006	Application filed
January 2007	Prehearing Conference
April 2007	DRA Report served
May, 2007	Intervenor Testimony served
May, 2007	Discovery on Intervenor Testimony
June, 2007	Utility Rebuttal Testimony Served
TBD	Public Participation Hearings
June/July, 2007	Hearings
August, 2007	Opening Briefs filed
September, 2007	Reply Briefs filed
September, 2007	Update filing and update hearing if necessary
October, 2007	Proposed Decision
November, 2007	Commission Decision
December, 2007	Final Tariffs filed
January 1, 2008	Implementation

## **VIII.**

### **CORPORATE INFORMATION**

SDG&E is a public utility corporation organized and existing under, and by virtue of, the laws of the State of California, and is engaged principally in the business of providing electric service in a portion of Orange County and electric and gas service in San Diego County. SDG&E's principal place of business is 8330 Century Park Court, San Diego, California 92123, and its mailing address is Post Office Box 1831, San Diego, California 92112. All correspondence or communications regarding this Application should be addressed to:

Ron van der Leeden  
San Diego Gas & Electric Company  
555 West Fifth Street, GT14-075  
Los Angeles, California 90013-1011  
213-244-2009  
213-244-4957 (facsimile)



with a copy to:

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SDG&E provides the following information in order to satisfy certain procedural requirements:

1. SDG&E is a corporation created under the laws of the State of California. A certified copy of the Restated Articles of Incorporation of San Diego Gas & Electric Company presently in effect and certified by the California Secretary of State, was filed with the Commission on December 4, 1997 in connection with SDG&E's Application 97-12-012 and is incorporated herein by reference.
2. A general description of SDG&E's property and equipment was previously filed with the Commission on October 5, 2001 in connection with SDG&E's Application No. 01-10-005 and is incorporated herein by reference. A statement of account of the original cost of this property, together with a statement of the depreciation reserve attributable thereto, is attached as Attachment D.
3. SDG&E depreciates utility plant in its financial statements on a straight-line remaining life basis, according to the estimated useful life of plant property. For federal income tax accrual purposes, SDG&E generally computes depreciation using the straight-line method for tax property additions prior to 1954 and liberalized depreciation, which includes Class Life and Asset Depreciation Range Systems, on tax property additions after 1954 and prior to 1981. For financial reporting and ratesetting purposes, SDG&E uses "flow through accounting" for such properties. For tax property additions in years 1981 through 1986, SDG&E computes its tax depreciation using the Accelerated Cost Recovery System ("ACRS"). For additions after 1986, the Company computes its tax depreciation using the Modified Accelerated Cost Recovery System ("MACRS") and, since 1982, has normalized the effects of the depreciation difference in accordance with the Economic Recovery Tax Act of 1981 and the Tax Reform Act of 1986.
4. A Summary of Projected Earnings for the Electric, Gas and Combined

Departments is contained in Attachment E.

5. SDG&E's most recent balance sheet, together with financial and income statements covering the period from the close of the last year for which an annual report has been filed with the Commission to the date of the balance sheet, are contained in Attachment F.

6. A copy of SDG&E's most recent Proxy Statement is contained in Attachment F.

## **IX.**

### **STATUTORY AND OTHER AUTHORITY**

This Application is made pursuant to Sections 451, 454, 455.5, 491, 701, 728 and 729 of the Public Utilities Code of the State of California, the Commission's Rules of Practice and Procedure, and prior decisions, orders and resolutions of this Commission.

## **X.**

### **NOTICE**

In compliance with Rule 24 of the Commission's Rules of Practice and Procedure, SDG&E will within ten (10) days after this Application is filed with the Commission:

1. Mail a notice to those persons listed in Attachment G, stating in general terms the proposed revisions in rates. The notice will also state that a copy of this Application and related exhibits will be furnished by SDG&E upon written request;

2. Publish at least once in a newspaper of general circulation in all counties within, from, or to which the revisions in rates are proposed to be made effective, a notice in general terms, of the proposed revisions in rates. The notice will also state that a copy of this Application and related exhibits may be examined at the offices of the California Public Utilities Commission in San Diego and in such SDG&E offices as are specified in the notice.

SDG&E will also provide a similar notice to all customers affected by the proposed rate changes by including such notice with the regular bills transmitted to these customers. In addition, SDG&E will serve a notice of availability on all persons designated in Attachment H, which is all parties to SDG&E's prior cost of service proceeding (A.02-12-

028).

### **ADDITIONAL DOCUMENTATION**

Attachments A through H, described below are a part of this Application:

Attachment A: Statement of Present and Proposed Rates – Electric Revenues

Attachment B: Statement of Present and Proposed Rates – Electric Rates

Attachment C: Statement of Present and Proposed Rates -- Gas

Attachment D: Cost of Property and Depreciation Reserve

Attachment E: Summary of Projected Earnings

Attachment F: Financial Statements and Proxy

Attachment G: Governmental Entities Receiving Notice

Attachment H: Service List

Attachment I: Certificate of Service

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SDG&E is ready to proceed with its showing.

**WHEREFORE**, San Diego Gas & Electric Company respectfully requests that the Commission:

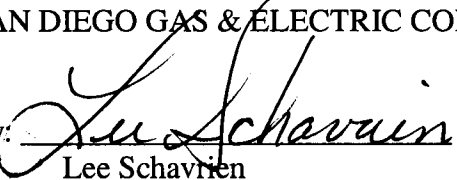
1. Consider this Application and grant all the relief requested herein;
2. Issue an Order authorizing SDG&E to make such changes to SDG&E's tariffs as are consistent with the relief requested herein; and
3. Grant such other and further relief as the Commission finds to be just and reasonable.

Dated at San Diego, California this 8<sup>th</sup> day of December, 2006.

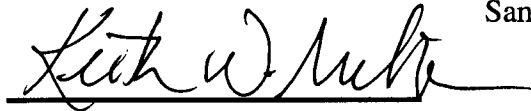
Respectfully submitted,

SAN DIEGO GAS & ELECTRIC COMPANY

By:

  
Lee Schavrien  
Vice President - Regulatory Affairs  
San Diego Gas & Electric Company

By:



KEITH W. MELVILLE  
KELLY M. FOLEY  
JOHNNY PONG  
JAMES F. WALSH  
MICHAEL R. THORP

*Attorneys for San Diego Gas and Electric Company*

101 Ash Street  
San Diego, California 92101  
(619) 699-5039  
(619) 699-5027 (facsimile)

## VERIFICATION

I, Lee Schavrien, am an officer of the applicant corporation herein, to wit: Vice President – Regulatory Affairs – San Diego Gas & Electric Company, and am authorized to make this verification on its behalf. The content of this document is true, except as to matters that are stated on information and belief. As to those matters, I believe them to be true.

I declare under penalty of perjury that the foregoing is true and correct.

Executed on December ~~8th~~ 2006 at San Diego, California.

A handwritten signature in black ink, appearing to read "Lee Schavrien", written over a horizontal line.

Lee Schavrien  
Vice President - Regulatory Affairs  
San Diego Gas & Electric Company

# **ATTACHMENT A**

Service Statement of Present and Proposed Rates – Electric Revenues



**Attachment A**  
**San Diego Gas & Electric Company - Electric Department**  
**Summary of Electric Revenue Change by Major Customer Class**  
**2008 General Rate Case A. \_\_\_\_\_**  
**(\$Millions)**

<u>Line No.</u>	<u>Customer Class</u>	<u>Total Revenues*</u>		<u>Change</u>		<u>Line No.</u>
		<u>Present</u>	<u>Proposed</u>	<u>\$</u>	<u>%</u>	
1	Residential	\$1,301.088	\$1,410.452	\$109.364	8.41%	1
2	Small Commercial	\$367.973	\$391.837	\$23.864	6.49%	2
3	Med & Large C&I	\$1,164.468	\$1,222.278	\$57.810	4.96%	3
4	Agricultural	\$13.927	\$15.106	\$1.179	8.46%	4
5	Lighting	\$17.609	\$17.858	\$0.249	1.41%	5
6	System	\$2,865.065	\$3,057.531	\$192.466	6.72%	6

\* Include Utility Distribution Company revenues plus Generation/Commodity revenues, based on TY 2008 Sales.





# **ATTACHMENT B**

Statement of Present and Proposed Rates – Electric Rates



**Attachment B**  
**San Diego Gas & Electric Company - Electric Department**  
**Summary of Electric Revenue Rates by Major Customer Class**  
**2008 General Rate Case A. \_\_\_\_\_**  
**(¢/kWh)**

<u>Line No.</u>	<u>Customer Class</u>	<u>Total Rate*</u>		<u>Change</u>		<u>Line No.</u>
		<u>Present</u>	<u>Proposed</u>	<u>¢/kWh</u>	<u>%</u>	
1	Residential	16.98	18.41	1.43	8.4%	1
2	Small Commercial	17.61	18.75	1.14	6.5%	2
3	Med & Large C&I	13.37	13.93	0.56	4.2%	3
4	Agricultural	16.10	17.45	1.35	8.4%	4
5	Lighting	16.09	16.32	0.23	1.4%	5
6	System	15.12	16.07	0.95	6.3%	6

\* Includes Utility Distribution Company rates plus Generation/Commodity rates, based on TY 2008 Sales.



# **ATTACHMENT C**

Statement of Present and Proposed Rates - Gas



# ATTACHMENT C

## Summary of Annual Gas Transportation Revenues

### SAN DIEGO GAS & ELECTRIC

2008 GRC Base Margin + Pension Accounts + FF&U with 99 BCAP Throughput (v10-30-2006)

			At Present Rates		At Proposed Rates		Changes				
			BCAP Volumes	Jan-1-06 Revenues	Average Rate	Jan-1-08 Revenues	Average Rate	Revenues	Rates	Percent	
			A	B	C	D	E	F	G	H	
			mtherms	\$1,000 1/	¢/therm	\$1,000 1/	¢/therm	\$1,000	¢/therm		
1	Residential	1/	326,207	\$178,966	54.863	\$211,686	64.893	\$32,720	10.030	18.3%	1
2	Comm1 & Industrial	1/	129,794	\$39,817	30.677	\$46,743	36.013	\$6,926	5.336	17.4%	2
3	NGV	1/	4,030	\$3,633	90.151	\$3,928	97.472	\$295	7.321	8.1%	3
4	Total CORE		460,031	\$222,416	48.348	\$262,357	57.030	\$39,941	8.682	18.0%	4
5											5
6	Comm1 & Industrial	1/	86,211	\$9,984	11.581	\$11,289	13.095	\$1,305	1.514	13.1%	6
7	Elec Generation :										7
8	Pre-Semprawide	1, 2/	897,926	\$59,545	6.631	\$64,719	7.208	\$5,175	0.576	8.7%	8
9	Adjustment	1, 2/		(\$16,749)	(1.865)	(\$18,931)	(2.108)	(\$2,182)	(0.243)	13.0%	9
10	EG Totals		897,926	\$42,796	4.766	\$45,788	5.099	\$2,993	0.333	7.0%	10
11											11
12	Total NCORE		984,137	\$52,779	5.363	\$57,077	5.800	\$4,298	0.437	8.1%	12
13											13
14	TRANSPORT RATE REV		1,444,168	\$275,196	19.056	\$319,434	22.119	\$44,239	3.063	16.1%	14

**Notes** 1/ Present Rates reflect gas rates filed in AL 1582-G, effective January 1, 2006.  
Both Present and Proposed Rates exclude all costs related to SDG&E procurement, including CITCS charges.

2/ The Totals reflect a "stand-alone" EG rate for transportation service through both SDG&E and SoCalGas.  
The Adjustment reflects the Semprawide rate adjustment to equalize the EG rates of SDG&E and SoCalGas.





# **ATTACHMENT D**

Cost of Property and Depreciation Reserve



**SAN DIEGO GAS & ELECTRIC COMPANY**

**COST OF PROPERTY AND  
DEPRECIATION RESERVE APPLICABLE THERETO  
AS OF SEPTEMBER 30, 2006**

<u>No.</u>	<u>Account</u>	<u>Original Cost</u>	<u>Reserve for Depreciation and Amortization</u>
<b>ELECTRIC DEPARTMENT</b>			
302	Franchises and Consents	\$ 222,841	\$ 202,900
303	Misc. Intangible Plant	25,021,883	18,284,938
	<b>TOTAL INTANGIBLE PLANT</b>	<b>25,244,725</b>	<b>18,487,838</b>
310.1	Land	12,046,518	46,518
310.2	Land Rights	0	0
311	Structures and Improvements	40,032,392	8,370,046
312	Boiler Plant Equipment	115,423,771	15,069,429
314	Turbogenerator Units	98,917,908	8,922,915
315	Accessory Electric Equipment	33,364,110	2,666,144
316	Miscellaneous Power Plant Equipment	18,499,839	526,525
	Steam Production Decommissioning	0	0
	<b>TOTAL STEAM PRODUCTION</b>	<b>318,284,539</b>	<b>35,601,576</b>
320.1	Land	0	0
320.2	Land Rights	283,677	283,677
321	Structures and Improvements	267,873,713	265,219,331
322	Boiler Plant Equipment	393,571,684	393,571,684
323	Turbogenerator Units	135,444,115	135,444,115
324	Accessory Electric Equipment	166,879,502	166,719,993
325	Miscellaneous Power Plant Equipment	244,544,216	201,248,463
107	ICIP CWIP	0	6,017,657
	<b>TOTAL NUCLEAR PRODUCTION</b>	<b>1,208,596,908</b>	<b>1,168,504,922</b>
340.1	Land	143,476	0
340.2	Land Rights	2,428	2,428
341	Structures and Improvements	4,421,921	139,531
342	Fuel Holders, Producers & Accessories	15,295,980	281,026
343	Prime Movers	20,824,413	1,007,948
344	Generators	161,366,537	2,611,681
345	Accessory Electric Equipment	8,780,970	313,079
346	Miscellaneous Power Plant Equipment	359,058	17,379
	<b>TOTAL OTHER PRODUCTION</b>	<b>211,194,783</b>	<b>4,373,071</b>
	<b>TOTAL ELECTRIC PRODUCTION</b>	<b>1,738,076,230</b>	<b>1,208,479,569</b>



<u>No.</u>	<u>Account</u>	<u>Original Cost</u>	<u>Reserve for Depreciation and Amortization</u>
350.1	Land	\$ 21,560,243	\$ 0
350.2	Land Rights	59,633,184	8,716,238
352	Structures and Improvements	74,741,661	25,177,626
353	Station Equipment	492,759,936	115,980,464
354	Towers and Fixtures	102,090,115	73,112,406
355	Poles and Fixtures	108,749,767	39,784,492
356	Overhead Conductors and Devices	203,219,686	138,185,337
357	Underground Conduit	43,960,182	7,204,394
358	Underground Conductors and Devices	32,560,080	10,123,158
359	Roads and Trails	18,492,706	4,662,388
	<b>TOTAL TRANSMISSION</b>	<b>1,157,767,559</b>	<b>422,946,503</b>
360.1	Land	18,614,974	0
360.2	Land Rights	64,311,409	24,659,731
361	Structures and Improvements	3,218,333	1,869,247
362	Station Equipment	285,584,197	67,705,260
364	Poles, Towers and Fixtures	343,599,393	183,569,453
365	Overhead Conductors and Devices	279,423,633	94,177,512
366	Underground Conduit	727,453,850	281,161,707
367	Underground Conductors and Devices	950,670,079	501,769,772
368.1	Line Transformers	341,315,182	58,400,857
368.2	Protective Devices and Capacitors	22,866,912	2,481,002
369.1	Services Overhead	90,854,475	114,579,070
369.2	Services Underground	248,079,360	143,764,270
370.1	Meters	82,774,583	30,716,889
370.2	Meter Installations	40,034,699	9,788,122
371	Installations on Customers' Premises	6,009,127	8,492,712
373.1	St. Lighting & Signal Sys.-Transformers	0	0
373.2	Street Lighting & Signal Systems	23,445,274	16,677,573
	<b>TOTAL DISTRIBUTION PLANT</b>	<b>3,528,255,480</b>	<b>1,539,813,176</b>
389.1	Land	7,510,993	0
389.2	Land Rights	0	0
390	Structures and Improvements	28,619,366	9,907,379
392.1	Transportation Equipment - Autos	0	49,884
392.2	Transportation Equipment - Trailers	175,979	125,071
393	Stores Equipment	54,331	45,165
394.1	Portable Tools	11,244,924	3,758,248
394.2	Shop Equipment	572,160	305,684
395	Laboratory Equipment	438,662	71,198
396	Power Operated Equipment	92,162	149,134
397	Communication Equipment	94,761,225	41,008,850
398	Miscellaneous Equipment	384,974	(85,919)
	<b>TOTAL GENERAL PLANT</b>	<b>143,854,776</b>	<b>55,334,695</b>
101	<b>TOTAL ELECTRIC PLANT</b>	<b>6,593,198,769</b>	<b>3,245,061,782</b>



<u>No.</u>	<u>Account</u>	<u>Original Cost</u>	<u>Reserve for Depreciation and Amortization</u>
<b>GAS PLANT</b>			
302	Franchises and Consents	\$ 86,104	\$ 86,104
303	Miscellaneous Intangible Plant	713,559	574,758
	<b>TOTAL INTANGIBLE PLANT</b>	<b>799,663</b>	<b>660,862</b>
360.1	Land	0	0
361	Structures and Improvements	412,998	554,836
362.1	Gas Holders	989,283	1,012,573
362.2	Liquefied Natural Gas Holders	0	0
363	Purification Equipment	0	0
363.1	Liquefaction Equipment	0	0
363.2	Vaporizing Equipment	0	0
363.3	Compressor Equipment	558,651	612,455
363.4	Measuring and Regulating Equipment	0	0
363.5	Other Equipment	0	0
363.6	LNG Distribution Storage Equipment	407,546	338,150
	<b>TOTAL STORAGE PLANT</b>	<b>2,368,477</b>	<b>2,518,014</b>
365.1	Land	4,649,144	0
365.2	Land Rights	2,217,185	964,590
366	Structures and Improvements	10,832,602	7,087,878
367	Mains	121,465,574	44,344,371
368	Compressor Station Equipment	60,260,525	35,187,526
369	Measuring and Regulating Equipment	15,684,505	9,245,481
371	Other Equipment	0	0
	<b>TOTAL TRANSMISSION PLANT</b>	<b>215,109,535</b>	<b>96,829,845</b>
374.1	Land	102,187	0
374.2	Land Rights	7,809,067	4,699,595
375	Structures and Improvements	43,447	61,253
376	Mains	474,622,808	254,453,458
378	Measuring & Regulating Station Equipment	8,241,009	5,371,203
380	Distribution Services	224,010,994	239,742,150
381	Meters and Regulators	69,904,424	30,534,318
382	Meter and Regulator Installations	57,117,942	22,097,257
385	Ind. Measuring & Regulating Station Equipment	1,516,811	706,975
386	Other Property On Customers' Premises	0	0
387	Other Equipment	4,446,936	3,906,212
	<b>TOTAL DISTRIBUTION PLANT</b>	<b>847,815,625</b>	<b>561,572,421</b>





<u>No.</u>	<u>Account</u>	<u>Original Cost</u>	<u>Reserve for Depreciation and Amortization</u>
392.1	Transportation Equipment - Autos	\$ 0	\$ 25,503
392.2	Transportation Equipment - Trailers	74,501	74,501
394.1	Portable Tools	6,163,888	1,834,246
394.2	Shop Equipment	84,597	(2,567)
395	Laboratory Equipment	344,813	(152,427)
396	Power Operated Equipment	246,939	51,336
397	Communication Equipment	2,950,836	1,379,322
398	Miscellaneous Equipment	310,534	33,991
	TOTAL GENERAL PLANT	10,176,108	3,243,903
101	TOTAL GAS PLANT	1,076,269,407	664,825,046
<b>COMMON PLANT</b>			
303	Miscellaneous Intangible Plant	167,352,728	129,149,388
350.1	Land	0	0
360.1	Land	0	0
389.1	Land	5,753,073	0
389.2	Land Rights	1,872,944	27,275
390	Structures and Improvements	129,411,172	45,773,077
391.1	Office Furniture and Equipment - Other	23,474,474	9,904,824
391.2	Office Furniture and Equipment - Computer Equipm	43,446,098	18,385,928
392.1	Transportation Equipment - Autos	33,942	(338,930)
392.2	Transportation Equipment - Trailers	41,567	(92,149)
393	Stores Equipment	140,123	(199,464)
394.1	Portable Tools	168,535	(8,118)
394.2	Shop Equipment	313,717	124,916
394.3	Garage Equipment	2,624,818	513,523
395	Laboratory Equipment	2,001,015	827,263
396	Power Operated Equipment	0	(192,979)
397	Communication Equipment	76,865,555	43,499,884
398	Miscellaneous Equipment	3,061,525	885,784
118.1	TOTAL COMMON PLANT	456,561,285	248,260,222
	TOTAL ELECTRIC PLANT	6,593,198,769	3,245,061,782
	TOTAL GAS PLANT	1,076,269,407	664,825,046
	TOTAL COMMON PLANT	456,561,285	248,260,222
101 & 118.1	TOTAL	8,126,029,462 0	4,158,147,049
101	PLANT IN SERV-SONGS FULLY RECOVERED	\$ (1,167,685,825)	\$ (1,167,685,825)



<u>No.</u>	<u>Account</u>	<u>Original Cost</u>	<u>Reserve for Depreciation and Amortization</u>
101	Accrual for Retirements		
	Electric	\$ (5,854,198)	\$ (5,854,198)
	Gas	(183,873)	(183,873)
	TOTAL PLANT IN SERV-NON RECON ACCTS	(6,038,071)	(6,038,071)
	Electric	0	0
	Gas	0	0
	TOTAL PLANT PURCHASED OR SOLD	0	0
105	Plant Held for Future Use		
	Electric	290,020	0
	Gas	0	0
	TOTAL PLANT HELD FOR FUTURE USE	290,020	0
107	Construction Work in Progress		
	Electric	184,466,337	
	Gas	3,757,737	
	Common	7,887,524	
	TOTAL CONSTRUCTION WORK IN PROGRESS	196,111,597	0
108	Accum. Depr SONGS Mitigation/Spent Fuel Disallowance		
	Electric	0	6,503,096
108.5	Accumulated Nuclear Decommissioning		
	Electric	0	569,251,929
	TOTAL ACCUMULATED NUCLEAR DECOMMISSIONING	0	569,251,929
114	ELECTRIC PLANT ACQUISITION ADJUSTMENT	0	0
120	NUCLEAR FUEL FABRICATION	54,579,584	34,566,040
143	FAS 143 ASSETS - Legal Obligation	71,027,918	(525,175,727)
	FIN 47 ASSETS - Legal Obligation	31,886,251	13,401,560
143	FAS 143 ASSETS - Non-legal Obligation	0	(1,008,464,557)
	TOTAL FAS 143	102,914,169	(1,520,238,724)
	UTILITY PLANT TOTAL	\$ 7,306,200,937	\$ 2,074,505,496



# **ATTACHMENT E**

## **Summary of Projected Earnings**



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**SUMMARY OF EARNINGS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2006**  
**(DOLLARS IN MILLIONS)**

<u>Line No.</u>	<u>Item</u>	<u>Amount</u>
1	Operating Revenue	\$2,105
2	Operating Expenses	<u>1,858</u>
3	Net Operating Income	<u><u>\$247</u></u>
4	Weighted Average Rate Base	\$3,406
5	Rate of Return*	8.18%

\*Authorized Cost of Capital





# **ATTACHMENT F**

Financial Statements and Proxy



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**BALANCE SHEET**  
**ASSETS AND OTHER DEBITS**  
**SEPTEMBER 30, 2006**

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<b>1. UTILITY PLANT</b>		<u>2006</u>
101	UTILITY PLANT IN SERVICE	\$7,772,174,959
102	UTILITY PLANT PURCHASED OR SOLD	-
105	PLANT HELD FOR FUTURE USE	290,020
106	COMPLETED CONSTRUCTION NOT CLASSIFIED	-
107	CONSTRUCTION WORK IN PROGRESS	175,343,654
108	ACCUMULATED PROVISION FOR DEPRECIATION OF UTILITY PLANT	(3,668,315,605)
111	ACCUMULATED PROVISION FOR AMORTIZATION OF UTILITY PLANT	(187,698,143)
118	OTHER UTILITY PLANT	464,656,196
119	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF OTHER UTILITY PLANT	(119,041,913)
120	NUCLEAR FUEL - NET	<u>32,893,964</u>
TOTAL NET UTILITY PLANT		<u>4,470,303,132</u>
<b>2. OTHER PROPERTY AND INVESTMENTS</b>		
121	NONUTILITY PROPERTY	2,932,225
122	ACCUMULATED PROVISION FOR DEPRECIATION AND AMORTIZATION OF NONUTILITY PROPERTY	(395,595)
123	INVESTMENTS IN SUBSIDIARY COMPANIES	3,290,000
124	OTHER INVESTMENTS	-
125	SINKING FUNDS	-
128	OTHER SPECIAL FUNDS	<u>669,143,773</u>
TOTAL OTHER PROPERTY AND INVESTMENTS		<u>674,970,403</u>



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**BALANCE SHEET**  
**ASSETS AND OTHER DEBITS**  
**SEPTEMBER 30, 2006**

<b>3. CURRENT AND ACCRUED ASSETS</b>		<b>2006</b>
131	CASH	17,884,013
132	INTEREST SPECIAL DEPOSITS	-
134	OTHER SPECIAL DEPOSITS	161,240,000
135	WORKING FUNDS	81,641
136	TEMPORARY CASH INVESTMENTS	66,905,305
141	NOTES RECEIVABLE	-
142	CUSTOMER ACCOUNTS RECEIVABLE	144,947,702
143	OTHER ACCOUNTS RECEIVABLE	38,008,923
144	ACCUMULATED PROVISION FOR UNCOLLECTIBLE ACCOUNTS	(2,126,892)
145	NOTES RECEIVABLE FROM ASSOCIATED COMPANIES	-
146	ACCOUNTS RECEIVABLE FROM ASSOCIATED COMPANIES	19,335,798
151	FUEL STOCK	392,177
152	FUEL STOCK EXPENSE UNDISTRIBUTED	-
154	PLANT MATERIALS AND OPERATING SUPPLIES	52,353,423
156	OTHER MATERIALS AND SUPPLIES	-
163	STORES EXPENSE UNDISTRIBUTED	-
164	GAS STORED	48,928,109
165	PREPAYMENTS	15,267,905
171	INTEREST AND DIVIDENDS RECEIVABLE	15,030,021
173	ACCRUED UTILITY REVENUES	53,584,000
174	MISCELLANEOUS CURRENT AND ACCRUED ASSETS	34,263,508
175	DERIVATIVE INSTRUMENT ASSETS	38,832,812
TOTAL CURRENT AND ACCRUED ASSETS		704,928,445
<b>4. DEFERRED DEBITS</b>		
181	UNAMORTIZED DEBT EXPENSE	20,275,576
182	UNRECOVERED PLANT AND OTHER REGULATORY ASSETS	1,259,067,892
183	PRELIMINARY SURVEY & INVESTIGATION CHARGES	19,382,557
184	CLEARING ACCOUNTS	285,329
185	TEMPORARY FACILITIES	-
186	MISCELLANEOUS DEFERRED DEBITS	13,181,268
188	RESEARCH AND DEVELOPMENT	-
189	UNAMORTIZED LOSS ON REACQUIRED DEBT	38,532,118
190	ACCUMULATED DEFERRED INCOME TAXES	142,087,056
TOTAL DEFERRED DEBITS		1,492,811,796
TOTAL ASSETS AND OTHER DEBITS		\$7,343,013,776



**SAN DIEGO GAS & ELECTRIC COMPANY  
BALANCE SHEET  
LIABILITIES AND OTHER CREDITS  
SEPTEMBER 30, 2006**

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**5. PROPRIETARY CAPITAL**

	<u>2006</u>
201 COMMON STOCK ISSUED	\$291,458,395
204 PREFERRED STOCK ISSUED	78,475,400
207 PREMIUM ON CAPITAL STOCK	592,222,753
210 GAIN ON RETIRED CAPITAL STOCK	-
211 MISCELLANEOUS PAID-IN CAPITAL	279,618,042
214 CAPITAL STOCK EXPENSE	(25,990,045)
216 UNAPPROPRIATED RETAINED EARNINGS	741,633,305
219 ACCUMULATED OTHER COMPREHENSIVE INCOME	<u>(14,051,290)</u>
 TOTAL PROPRIETARY CAPITAL	 <u>1,943,366,560</u>

**6. LONG-TERM DEBT**

221 BONDS	1,548,145,000
223 ADVANCES FROM ASSOCIATED COMPANIES	10,740,659
224 OTHER LONG-TERM DEBT	269,970,000
225 UNAMORTIZED PREMIUM ON LONG-TERM DEBT	-
226 UNAMORTIZED DISCOUNT ON LONG-TERM DEBT	<u>(2,289,698)</u>
 TOTAL LONG-TERM DEBT	 <u>1,826,565,961</u>

**7. OTHER NONCURRENT LIABILITIES**

227 OBLIGATIONS UNDER CAPITAL LEASES - NONCURRENT	-
228.2 ACCUMULATED PROVISION FOR INJURIES AND DAMAGES	27,245,672
228.3 ACCUMULATED PROVISION FOR PENSIONS AND BENEFITS	3,043,981
228.4 ACCUMULATED MISCELLANEOUS OPERATING PROVISIONS	(9,233)
230 ASSET RETIREMENT OBLIGATIONS	<u>476,813,483</u>
 TOTAL OTHER NONCURRENT LIABILITIES	 <u>507,093,903</u>





**SAN DIEGO GAS & ELECTRIC COMPANY**  
**BALANCE SHEET**  
**LIABILITIES AND OTHER CREDITS**  
**SEPTEMBER 30, 2006**

**8. CURRENT AND ACCRUED LIABILITIES**

	<u>2006</u>
231 NOTES PAYABLE	-
232 ACCOUNTS PAYABLE	210,764,658
233 NOTES PAYABLE TO ASSOCIATED COMPANIES	65,800,000
234 ACCOUNTS PAYABLE TO ASSOCIATED COMPANIES	24,948,418
235 CUSTOMER DEPOSITS	58,797,596
236 TAXES ACCRUED	60,252,042
237 INTEREST ACCRUED	27,431,628
238 DIVIDENDS DECLARED	1,204,917
241 TAX COLLECTIONS PAYABLE	2,056,029
242 MISCELLANEOUS CURRENT AND ACCRUED LIABILITIES	181,478,768
243 OBLIGATIONS UNDER CAPITAL LEASES - CURRENT	-
244 DERIVATIVE INSTRUMENT LIABILITIES	458,553,750
245 DERIVATIVE INSTRUMENT LIABILITIES - HEDGES	-
	<u>1,091,287,806</u>
TOTAL CURRENT AND ACCRUED LIABILITIES	

**9. DEFERRED CREDITS**

252 CUSTOMER ADVANCES FOR CONSTRUCTION	27,799,417
253 OTHER DEFERRED CREDITS	375,368,566
254 OTHER REGULATORY LIABILITIES	961,058,805
255 ACCUMULATED DEFERRED INVESTMENT TAX CREDITS	31,869,267
257 UNAMORTIZED GAIN ON REACQUIRED DEBT	-
281 ACCUMULATED DEFERRED INCOME TAXES - ACCELERATED	5,201,256
282 ACCUMULATED DEFERRED INCOME TAXES - PROPERTY	508,763,152
283 ACCUMULATED DEFERRED INCOME TAXES - OTHER	64,639,083
	<u>1,974,699,546</u>
TOTAL DEFERRED CREDITS	

TOTAL LIABILITIES AND OTHER CREDITS	<u><u>\$7,343,013,776</u></u>
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**SAN DIEGO GAS & ELECTRIC COMPANY**  
**FINANCIAL STATEMENT**  
**SEPTEMBER 30, 2006**

(a) Amounts and Kinds of Stock Authorized:

Preferred Stock	1,375,000 shares	Par Value \$27,500,000
Preferred Stock	10,000,000 shares	Without Par Value
Preferred Stock	Amount of shares not specified	\$80,000,000
Common Stock	255,000,000 shares	Without Par Value

Amounts and Kinds of Stock Outstanding:

**PREFERRED STOCK**

5.0%	375,000 shares	\$7,500,000
4.50%	300,000 shares	6,000,000
4.40%	325,000 shares	6,500,000
4.60%	373,770 shares	7,475,400
\$1.7625	750,000 shares	18,750,000
\$1.70	1,400,000 shares	35,000,000
\$1.82	640,000 shares	16,000,000

**COMMON STOCK**

116,583,358 shares	291,458,395
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(b) Terms of Preferred Stock:

Full information as to this item is given in connection with Application Nos. 93-09-069 and 04-01-009, to which references are hereby made.

(c) Brief Description of Mortgage:

Full information as to this item is given in Application Nos. 93-09-069, 96-05-066, 00-01-016 and 04-01-009 to which references are hereby made.

(d) Number and Amount of Bonds Authorized and Issued:

	Nominal Date of Issue	Int. Paid A/C	Par Value Authorized and Issued	Outstanding	Interest Paid in 2005
<u>First Mortgage Bonds:</u>					
6.8% Series KK, due 2015	12-01-91	2183052	14,400,000	14,400,000	979,200
Var% Series OO, due 2027	12-01-92	2183042, 46, 50	250,000,000	150,000,000	11,550,000
5.9% Series PP, due 2018	04-29-93	2183006	70,795,000	68,295,000	4,029,405
5.85% Series RR, due 2021	06-29-93	2183024	60,000,000	60,000,000	3,510,000
5.9% Series SS, due 2018	07-29-93	2183030	92,945,000	92,945,000	5,483,755
2.539% Series VV, due 2034	06-17-04	2183078	43,615,000	43,615,000	1,045,327
2.539% Series WW, due 2034	06-17-04	2183079	40,000,000	40,000,000	973,283
2.516% Series XX, due 2034	06-17-04	2183080	35,000,000	35,000,000	843,908
2.832% Series YY, due 2034	06-17-04	2183081	24,000,000	24,000,000	651,360
2.832% Series ZZ, due 2034	06-17-04	2183082	33,650,000	33,650,000	913,261
2.8275% Series AAA, due 2039	06-17-04	2183083	75,000,000	75,000,000	2,049,937
5.35% Series BBB, due 2035	05-19-05	2183085	250,000,000	250,000,000	6,538,889
5.30% Series CCC, due 2015	11-17-05	2183086	250,000,000	250,000,000	0
<u>Unsecured Bonds:</u>					
5.9% CPCFA96A, due 2014	06-01-96	2183044	129,820,000	129,820,000	7,659,380
Var% CV96A, due 2021	08-02-96	2183010	38,900,000	38,900,000	2,061,700
Var% CV96B, due 2021	11-21-96	2183011	60,000,000	60,000,000	3,300,000
Var% CV97A, due 2023	10-31-97	2183012	25,000,000	25,000,000	1,225,000



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**FINANCIAL STATEMENT**  
**SEPTEMBER 30, 2006**

<u>Other Indebtedness:</u>	<u>Date of Issue</u>	<u>Date of Maturity</u>	<u>Interest Rate</u>	<u>Outstanding</u>	<u>Interest Paid 2005</u>
Commercial Paper & ST Bank Loans	Various	Various	Various	0	\$356,948

Amounts and Rates of Dividends Declared:

The amounts and rates of dividends during the past five fiscal years are as follows:

<u>Preferred Stock</u>	<u>Shares Outstanding 12-31-05</u>	<u>Dividends Declared</u>				
		<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
5.0%	375,000	\$375,000	\$375,000	\$375,000	\$375,000	\$375,000
4.50%	300,000	270,000	270,000	270,000	270,000	270,000
4.40%	325,000	286,000	286,000	286,000	286,000	286,000
4.60%	373,770	343,868	343,868	343,868	343,868	343,868
\$ 1.7625	750,000	1,762,500	1,762,500	1,674,375	1,498,125	1,321,875
\$ 1.70	1,400,000	2,380,000	2,380,000	2,380,000	2,380,000	2,380,000
\$ 1.82	640,000	1,164,800	1,164,800	1,164,800	1,164,800	1,164,800
	<u>4,163,770</u>	<u>\$6,582,168</u>	<u>\$6,582,168</u>	<u>\$6,494,043</u>	<u>\$6,317,793</u>	<u>\$6,141,543</u> [2]

Common Stock

<u>Amount</u>	\$400,000,000	\$150,000,000	\$200,000,000	\$200,000,000	\$75,000,000	[1]
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A balance sheet and a statement of income and retained earnings of Applicant for the three months ended March 31, 2006, are attached hereto.

[1] San Diego Gas & Electric Company dividend to parent.

[2] Includes \$1,321,875 of interest expense related to redeemable preferred stock.



**SAN DIEGO GAS & ELECTRIC COMPANY**  
**STATEMENT OF INCOME AND RETAINED EARNINGS**  
**NINE MONTHS ENDED SEPTEMBER 30, 2006**

**1. UTILITY OPERATING INCOME**

400	OPERATING REVENUES		\$2,104,617,888
401	OPERATING EXPENSES	\$1,358,291,943	
402	MAINTENANCE EXPENSES	116,354,153	
403-7	DEPRECIATION AND AMORTIZATION EXPENSES	219,265,360	
408.1	TAXES OTHER THAN INCOME TAXES	40,607,670	
409.1	INCOME TAXES	283,111,140	
410.1	PROVISION FOR DEFERRED INCOME TAXES	32,359,759	
411.1	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	(188,979,857)	
411.4	INVESTMENT TAX CREDIT ADJUSTMENTS	(2,213,241)	
411.6	GAIN FROM DISPOSITION OF UTILITY PLANT	<u>(1,178,589)</u>	
	TOTAL OPERATING REVENUE DEDUCTIONS		<u>1,857,618,338</u>
	NET OPERATING INCOME		246,999,550

**2. OTHER INCOME AND DEDUCTIONS**

415	REVENUE FROM MERCHANDISING, JOBBING AND CONTRACT WORK	-	
417.1	EXPENSES OF NONUTILITY OPERATIONS	(1,105,170)	
418	NONOPERATING RENTAL INCOME	682,670	
418.1	EQUITY IN EARNINGS OF SUBSIDIARIES	-	
419	INTEREST AND DIVIDEND INCOME	13,133,575	
419.1	ALLOWANCE FOR OTHER FUNDS USED DURING CONSTRUCTION	7,001,190	
421	MISCELLANEOUS NONOPERATING INCOME	994,852	
421.1	GAIN ON DISPOSITION OF PROPERTY	<u>73,319</u>	
	TOTAL OTHER INCOME	<u>20,780,436</u>	
421.2	LOSS ON DISPOSITION OF PROPERTY	-	
426	MISCELLANEOUS OTHER INCOME DEDUCTIONS	<u>994,468</u>	
	TOTAL OTHER INCOME DEDUCTIONS	<u>994,468</u>	
408.2	TAXES OTHER THAN INCOME TAXES	348,361	
409.2	INCOME TAXES	489,919	
410.2	PROVISION FOR DEFERRED INCOME TAXES	1,639,133	
411.2	PROVISION FOR DEFERRED INCOME TAXES - CREDIT	<u>0</u>	
	TOTAL TAXES ON OTHER INCOME AND DEDUCTIONS	<u>2,477,413</u>	
	TOTAL OTHER INCOME AND DEDUCTIONS		<u>19,297,491</u>
	INCOME BEFORE INTEREST CHARGES		266,297,041
	NET INTEREST CHARGES*		<u>80,857,662</u>
	NET INCOME		<u><u>\$185,439,379</u></u>

\*NET OF ALLOWANCE FOR BORROWED FUNDS USED DURING CONSTRUCTION, (3,233,364) 11/20/2006 3:23 PM





**SAN DIEGO GAS & ELECTRIC COMPANY  
STATEMENT OF INCOME AND RETAINED EARNINGS  
NINE MONTHS ENDED SEPTEMBER 30, 2006**

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**3. RETAINED EARNINGS**

RETAINED EARNINGS AT BEGINNING OF PERIOD, AS PREVIOUSLY REPORTED	\$559,808,678
NET INCOME (FROM PRECEDING PAGE)	185,439,379
DIVIDEND TO PARENT COMPANY	0
DIVIDENDS DECLARED - PREFERRED STOCK	(3,614,752)
OTHER RETAINED EARNINGS ADJUSTMENTS	<u>0</u>
RETAINED EARNINGS AT END OF PERIOD	<u><u>\$741,633,305</u></u>



## **SEMPRA ENERGY**

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### **PROXY STATEMENT**

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We are soliciting proxies and voting instructions for our Annual Meeting of Shareholders to be held on May 4, 2006. We are doing so to give all shareholders an opportunity to vote on matters to be considered at the meeting. This proxy statement and the accompanying proxy or voting instruction card are being mailed to shareholders beginning March 21, 2006.

### **ABOUT SEMPRA ENERGY**

We are a Fortune 500 energy services holding company with approximately 240,000 shareholders. Our shares are traded on the New York Stock Exchange under the symbol "SRE". Our companies provide a wide spectrum of value-added electric and natural gas products and services to a diverse range of customers.

Sempra utilities, San Diego Gas & Electric Company and Southern California Gas Company, serve 23 million consumers from California's Central Valley to the Mexican border. SDG&E serves 3.4 million consumers through 1.3 million electric meters and more than 825,000 natural gas meters in a service area that encompasses 4,100 square miles. SoCalGas, the nation's largest natural gas distribution utility, serves 19.8 million consumers through 5.6 million meters in a service area that encompasses 20,000 square miles.

Sempra Global companies acquire, develop and operate infrastructure assets related to the production and distribution of energy and provide risk-management products and services:

- Sempra Commodities—a wholesale and retail marketer of physical and financial energy products, including natural gas, power, crude oil and other commodities, and base metals.
- Sempra Generation—owns and operates power plants, provides energy services and facilities management, and owns mineral rights in properties that produce petroleum and natural gas.
- Sempra LNG—develops receipt facilities for the importation of liquefied natural gas.
- Sempra Pipelines & Storage—develops and owns natural gas pipelines and storage facilities in the United States and Mexico, holds interests in companies that provide natural gas or electricity services to over 2.9 million customers in Argentina, Chile, Mexico and Peru, and owns and operates two small natural gas distribution utilities in the eastern United States.

Sempra Financial holds investments in tax-advantaged limited partnerships which own 1,300 affordable housing properties throughout the United States.

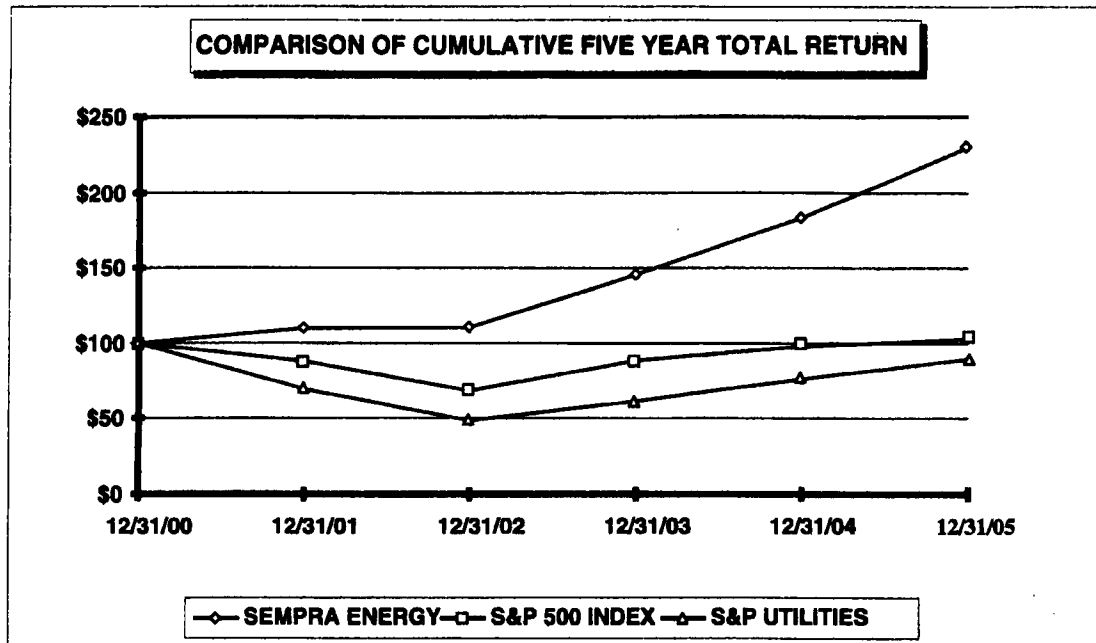
We are headquartered at:

101 Ash Street  
San Diego, California 92101-3017

Telephone (toll-free) ..... (877) 736-7721  
In San Diego ..... (619) 696-2034

## COMPARATIVE TOTAL SHAREHOLDER RETURNS

The following graph compares the percentage change in the cumulative total shareholder return on our common stock for the period January 1, 2001 through December 31, 2005 with the performance over the same period of the Standard & Poor's 500 Index and the Standard & Poor's Utilities Index.



These returns were calculated assuming an initial investment of \$100 in our common stock, the S&P 500 Index and the S&P Utilities Index on January 1, 2001 and the reinvestment of all dividends.

## **VOTING INFORMATION**

### **Shares Outstanding**

On March 10, 2006, our outstanding shares consisted of 260,499,854 shares of common stock. A majority of these shares must be represented in person or by proxy to conduct the Annual Meeting.

### **Voting of Shares**

All registered holders of our common stock at the close of business on March 10, 2006 are entitled to vote at the Annual Meeting. Each share is entitled to one vote on each matter properly brought before the meeting. All shares represented by properly submitted proxies and voting instructions that are timely received, and not revoked or superseded, will be voted as specified.

You may vote shares that are registered in your name by signing and returning the enclosed proxy card or by attending the Annual Meeting and casting a ballot. You also may vote by submitting your proxy over the Internet or by telephone. Please refer to "How You Can Vote" on page 4.

Shares that you own through a brokerage firm, bank or other account custodian are usually registered in the name of the custodian or its nominee. You may vote these shares by signing and returning the enclosed voting instruction card instructing the registered owner how to vote the shares on your behalf. You also may submit your voting instructions over the Internet or by telephone. Please refer to "How You Can Vote" on page 4. If you do not specify how your shares are to be voted, the registered holder may be authorized to vote the shares in its own discretion on some or all of the matters to be considered at the meeting.

If you participate in our Employee Savings Plans your proxy card represents the number of shares held in your plan account, as well as any other shares that are registered in the same name. The proxy card will instruct the plan trustees how to vote your plan shares. If your voting instructions are not timely received by the trustees, your plan shares will be voted in the same manner and proportion as shares for which voting instructions are received from other plan participants.

If you participate in our Direct Stock Purchase Plan, your proxy card represents shares that you own through the plan as well as any other shares that are registered in the same name.

If you properly submit a proxy or voting instruction but do not specify how your shares are to be voted, they will be voted in accordance with the recommendations of our Board of Directors as set forth in this proxy statement and also on the enclosed proxy or voting instruction card. The proxy holders will vote in their discretion on any other matter that may properly come before the meeting.

### **Confidential Voting**

Shareholders may elect that their identity and individual vote be held confidential. Confidentiality elections will not apply to the extent that voting disclosure is required by law or is appropriate to assert or defend any claim relating to voting. They also will not apply with respect to any matter for which votes are solicited in opposition to the director nominees or voting recommendations of our Board of Directors unless the persons engaged in the opposing solicitation provide shareholders with voting confidentiality comparable to that which we provide. Our Employee Savings Plans automatically provide confidential voting.

### **Required Votes**

Directors are elected by a plurality of votes. Consequently, the nominees for the four director positions who receive the greatest number of votes at the Annual Meeting will be elected directors. Each share is entitled to one vote for each of the four director positions, but cumulative voting is not permitted. Shares for which votes are withheld for the election of one or more director nominees will not be counted in determining the number of votes cast for those nominees.

Shareholder approval of the proposal to amend our articles to provide for the annual election of all directors requires the favorable vote of the holders of two-thirds of our outstanding shares. Consequently, abstaining or otherwise failing to vote on the proposal would have the same affect as voting against it.

Shareholder approval of the other proposals to be considered at the meeting requires the favorable vote of a majority of the votes cast on the proposal, and the favorable majority vote must also represent more than 25% of our outstanding shares.

Under certain circumstances, brokers, banks and other registered holders of shares are prohibited from exercising discretionary voting authority for the beneficial owners of shares unless they have been provided with voting instructions. In cases of these "broker non-votes" and in cases where shareholders abstain from voting on a particular matter, these unvoted shares will be counted only for the purpose of determining if a quorum is present and not as votes cast.

### **How You Can Vote**

You may vote your shares by signing the enclosed proxy or voting instruction card and returning it in a timely manner. Please mark the appropriate boxes on the card and sign, date and return the card promptly. A postage-paid return envelope is enclosed for your convenience.

#### ***Registered Shareholders, Direct Stock Purchase Plan and Employee Savings Plan Participants***

If your shares are registered in your name or held through our Direct Stock Purchase Plan or Employee Savings Plans, you also may vote your shares over the Internet or by telephone. You may submit your proxy at any time (24 hours a day, seven days a week) over the Internet at the following address on the World Wide Web:

**[www.computershare.com/us/proxy](http://www.computershare.com/us/proxy)**

or by using a touch-tone telephone and calling the following toll-free number from anywhere in the United States or Canada:

**1-800-652-8683**

Proxies submitted over the Internet or by telephone must be received by 12:00 midnight, Eastern time, on Wednesday, May 3, 2006. However, proxies that include shares held in our Employee Savings Plans must be received by 9:00 a.m., Eastern time on Monday, May 1, 2006, to provide timely instructions for voting shares held in the plans.

#### ***Brokerage Firm and Bank Shareholdings***

If your shares are held in an account at a brokerage firm or bank that participates in a voting program provided by ADP Investor Communication Services, you also may submit your voting instruction at any time (24 hours a day, seven days a week) over the Internet at the following address on the World Wide Web:

**[www.proxyvote.com](http://www.proxyvote.com)**

or by using a touch-tone telephone and calling from anywhere in the United States, the toll-free number shown on your voting instruction card.

If your shares are held through a broker, bank or other account custodian that does not participate in a voting program provided by ADP Investor Communication Services, you may vote your shares only by signing and

timely returning the enclosed voting instruction card or providing other proper voting instructions to the registered owner of your shares.

\* \* \* \* \*

There may be costs associated with electronic access, such as usage charges from Internet access providers and telephone companies, charged to you when you submit your proxy or voting instructions over the Internet. There are no charges to use telephone voting procedures. If you submit your proxy or voting instruction over the Internet or by telephone, you need not mail the enclosed card.

**Your vote is important. Please vote your shares promptly  
even if you plan to attend the Annual Meeting in person.**

**Revocation of Proxies and Voting Instructions**

If you own shares that are registered in your name, you may revoke your proxy at any time before it is voted by timely submitting a written notice of revocation or a proxy bearing a later date, or by attending the Annual Meeting in person and casting a ballot.

If your shares are not registered in your name, you may revoke or change your voting instructions only by timely providing a proper notice or other proper voting instructions to the registered holder of your shares.



## **CORPORATE GOVERNANCE**

Our business and affairs are managed and all corporate powers are exercised under the direction of our Board of Directors. The board establishes broad corporate policies and oversees the performance of the company and our chief executive officer and other officers to whom the board has delegated day-to-day business operations.

The board has adopted Corporate Governance Guidelines that set forth expectations for directors, director independence standards, board committee structure and functions, and other policies for the governance of the company. It has also adopted a Code of Business Conduct and Ethics for Directors and Officers, and officers are also subject to Business Conduct Guidelines that apply to all employees.

Several standing committees assist the board in carrying out its responsibilities. Each operates under a written charter adopted by the board.

Our governance guidelines, committee charters and codes of conduct are posted on our website at [www.sempira.com](http://www.sempira.com). Printed copies may be obtained upon request by writing to: Corporate Secretary, Sempira Energy, 101 Ash Street, San Diego, CA 92101-3017.

### **Board of Directors**

#### *Functions*

In addition to its general oversight role, the Board of Directors performs a number of specific functions, including:

- Selecting the chief executive officer and overseeing his or her performance and that of other senior management in the operation of the company.
- Reviewing and monitoring strategic, financial and operating plans and budgets and their development and implementation by management.
- Assessing and monitoring risks and risk management strategies.
- Reviewing and approving significant corporate actions.
- Reviewing and monitoring processes designed to maintain the integrity of the company, including financial reporting, compliance with legal and ethical obligations, and relationships with shareholders, employees, customers, suppliers and others.
- Planning for management succession.
- Selecting director nominees, appointing board committee members and overseeing effective corporate governance.

#### *Director Independence*

Our Corporate Governance Guidelines contemplate that substantially all of our directors will be independent. The Board of Directors annually reviews the independence of our directors and our governance guidelines also provide that no person (other than a current or former officer) will be appointed or nominated by the board as a director unless he or she would be independent.

Under our governance guidelines, a director is “independent,” only if the board affirmatively determines that he or she has no direct or indirect material relationship with the company. Material relationships may include commercial, industrial, consulting, legal, accounting, charitable, family and other business, professional and personal relationships.

The board has established categorical standards and guidelines for evaluating director relationships. They specify particular relationships that by their nature or magnitude would preclude a conclusion of director independence. They also provide that relationships that arise solely from a director's position as a director, limited partner or holder of less than a 10% equity interest in another company are immaterial for independence purposes. They additionally provide that transactions involving directors that do not require proxy statement disclosure are immaterial for independence purposes unless they constitute a specific independence disqualifying relationship.

The board's independence principles and standards are derived from but are more rigorous than those adopted by the New York Stock Exchange. The board believes that the independence of all directors should be measured by identical independence standards rather than by applying less rigorous standards to directors who are not audit committee members as NYSE standards would permit. Accordingly, the board's independence standards apply both the NYSE's general independence standards and the NYSE's additional, more-rigorous audit committee independence standards to all directors. The board's standards also include more-rigorous independence-disqualifying relationships than those of the NYSE.

Applying these standards, the board has affirmatively determined that all of its non-officer directors are independent directors.

#### *Board and Committee Meetings; Executive Sessions; Annual Meetings of Shareholders*

At regularly scheduled board and committee meetings, directors review and discuss management reports regarding the company's performance, prospects and plans as well as immediate issues facing the company. At least once a year the board also reviews management's long-term strategic and financial plans and management's expectations regarding strategic and financial issues that the company may face in the foreseeable future.

The Chairman of the Board establishes the agenda for each board meeting. Directors are encouraged to suggest agenda items and any director also may raise at any meeting subjects that are not on the agenda.

Information and other materials important to understanding the business to be conducted at board and committee meetings are distributed in writing to the directors in advance of the meeting. Additional information also may be presented at the meeting.

An executive session of non-management board members is held at each regularly scheduled board meeting and any director may call for an executive session at any special meeting. During 2005, the board held six executive sessions. Executive sessions are presided over by the Chair of the Compensation Committee or, in the event of his or her absence, by the Chair of the Corporate Governance Committee.

During 2005, the board held 12 meetings and the committees of the board held 20 meetings. Directors, on an aggregate basis, attended over 97% of the combined number of these meetings and each director attended at least 80% of the combined number of meetings of the board and each committee of which he or she was a member.

The board also encourages attendance at the annual meeting of shareholders by all nominees for election as directors and all directors whose terms of office will continue after the meeting. Last year all but one director attended the annual meeting.

#### *Evaluation of Board and Director Performance*

Our Corporate Governance Committee annually reviews and evaluates the performance of the board. The committee assesses the board's contribution as a whole and identifies areas in which the board or senior management believes a better contribution may be made. The purpose of the review is to increase the effectiveness of the board and the results are reviewed with the board and its committees.

The Board of Directors annually reviews the individual performance and qualifications of each director whose term of office will expire at the next annual meeting of shareholders and who may wish to be considered for nomination to an additional term. The evaluations are reviewed by the Corporate Governance Committee, which makes recommendations to the board regarding nominees for election as directors.

#### *Evaluation and Compensation of the Chief Executive Officer*

Our Compensation Committee annually evaluates the performance of our Chief Executive Officer and reports the results of its evaluation to the Board of Directors for its consideration. The evaluation is based principally upon objective criteria, including business performance, accomplishment of strategic and financial objectives, development of management and other matters relevant to the short-term and long-term success of the company and the creation of shareholder value. The results of the committee's evaluation and the board's consideration of the evaluation are communicated to our Chief Executive Officer and considered by the committee and the board in their deliberations with respect to his compensation. All determinations regarding his compensation are made by the committee subject to ratification by the board acting solely through the independent directors.

#### *Succession Planning and Management Development*

Our Compensation Committee annually reports to the Board of Directors on succession planning, including policies and principles for executive officer selection. In accordance with the board's previously announced succession plan, Donald E. Felsing succeeded Stephen L. Baum as Chairman of the Board and Chief Executive Officer upon Mr. Baum's retirement from those positions on January 31, 2006 and December 31, 2005, respectively. Neal E. Schmale succeeded Mr. Felsing as President and Chief Operating Officer and Mark A. Snell succeeded Mr. Schmale as Executive Vice President and Chief Financial Officer.

#### *Director Orientation and Education Programs*

Every new director participates in an orientation program and receives materials and briefings to acquaint him or her with our business, industry, management and corporate governance policies and practices. Continuing education is provided for all directors through board materials and presentations, discussions with management, visits to corporate facilities and other sources.

#### *Board Access to Senior Management, Independent Auditors and Counsel*

Directors have complete access to our independent auditors, and to senior management and other employees. They also have complete access to counsel, advisers and experts of their choice with respect to any issues relating to the board's discharge of its duties.

## Board Committees

<u>Audit Committee</u>	<u>Compensation Committee</u>	<u>Corporate Governance Committee</u>
James G. Brocksmith, Jr., <i>Chair</i>	William C. Rusnack, <i>Chair</i>	William G. Ouchi, <i>Chair</i>
Wilford D. Godbold, Jr. William D. Jones Richard G. Newman William C. Rusnack	Richard A. Collato William G. Ouchi William P. Rutledge	James G. Brocksmith, Jr. Richard A. Collato Richard G. Newman William P. Rutledge
<u>Executive Committee</u>	<u>Technology Committee</u>	
Donald E. Felsing, <i>Chair</i>	William P. Rutledge, <i>Chair</i>	
James G. Brocksmith, Jr. William G. Ouchi William C. Rusnack William P. Rutledge	Donald E. Felsing Wilford D. Godbold, Jr. William D. Jones	

### *Audit Committee*

Our Audit Committee is comprised entirely of independent directors. It is directly responsible and has sole authority for appointing, compensating, retaining and overseeing the work of our independent auditors. The independent auditors report directly to the committee, which pre-approves all services that the auditors provide and prepares the report reprinted under the caption "Audit Committee Report." The committee also assists the Board of Directors in fulfilling oversight responsibilities regarding:

- The integrity of our financial statements.
- Our compliance with legal and regulatory requirements.
- Our internal audit function.

The Board of Directors has determined that each member of the Audit Committee is financially literate. It has also determined that Mr. Brocksmith, who chairs the committee, is an audit committee financial expert (as defined by the rules of the Securities and Exchange Commission) and his service on the audit committees of three other public companies does not impair his ability to serve effectively on our audit committee.

During 2005 the Audit Committee held eight meetings.

### *Compensation Committee*

Our Compensation Committee is comprised entirely of independent directors. It assists the Board of Directors in the evaluation and compensation of executives. It establishes our compensation principles and policies, oversees our executive compensation program and prepares the report on executive compensation reprinted under the caption "Compensation Committee Report." The committee has direct responsibility to:

- Review and approve corporate goals and objectives relevant to the compensation of our Chief Executive Officer.
- Evaluate our Chief Executive Officer's performance in light of these goals and objectives and approve (subject to ratification by the board acting solely through the independent directors) his compensation based on the committee's performance evaluation.
- Make recommendations to the board with respect to the compensation program for other executive officers, incentive compensation plans and equity-based plans.

During 2005, the Compensation Committee held four meetings.

### *Corporate Governance Committee*

Our Corporate Governance Committee is comprised entirely of independent directors. It assists the Board of Directors with respect to corporate governance matters. The committee's responsibilities include:

- Identifying individuals qualified to become board members.
- Recommending nominees for election as directors and the selection of candidates to fill board vacancies.
- Recommending directors for appointment as members of board committees.
- Developing and recommending corporate governance principles.
- Overseeing the evaluation of the board.

The committee reviews with the board the skills and characteristics required of directors in the context of current board membership and develops and maintains a pool of qualified director candidates. It solicits the names of candidates from various sources, including board members and search firms, and considers candidates submitted by shareholders.

The committee reviews biographical data and other relevant information regarding potential board candidates, and may request additional information from the candidates or any other source and, if the committee deems it appropriate, interviews candidates, references of candidates and others who may assist in candidate evaluation. It evaluates all candidates in the same manner whether identified by shareholders or other sources.

In considering potential director candidates, the committee evaluates each candidate's integrity, independence, judgment, knowledge, experience and other relevant factors to develop an informed opinion of his or her qualifications and ability and commitment to meet the board's expectations for directors set forth in our Corporate Governance Guidelines.

The committee's deliberations reflect the board's requirement that all director nominees (other than current or former officers) must be independent and all directors must be financially literate or must become financially literate within a reasonable time after appointment or election to the board. They also reflect the board's view regarding the appropriate number of directors and the composition of the board, including its belief that the membership of the board should reflect a diversity of experience, gender, race, ethnicity and age.

During 2005, the Corporate Governance Committee held six meetings.

### *Executive Committee*

Our Executive Committee meets on call by the Chairman of the Board during the intervals between meetings of the Board of Directors when scheduling or other requirements make it difficult to convene the full board. The committee did not meet during 2005.

### *Technology Committee*

Our Technology Committee:

- Reviews the application of technology to our long-term strategic goals and objectives.
- Reviews our major technology positions and strategies relative to emerging technologies.

During 2005, the Technology Committee held two meetings.

### **Shareholder Communications with the Board**

Shareholders who wish to communicate with the board, non-management directors as a group, a committee of the board or a specific director may do so by letters addressed to the care of our Corporate Secretary. These letters are reviewed by the Corporate Secretary and relayed to the addressees consistent with a screening policy providing that routine items and items unrelated to the duties and responsibilities of the board not be relayed on to directors. Any communication that is not relayed on to directors is recorded in a log and made available to directors.

Shareholders who wish to submit the names of potential candidates for consideration as directors by the Corporate Governance Committee may do so by writing to the chair of the committee to the care of our Corporate Secretary. The letter should contain a statement from the candidate that he or she would give favorable consideration to serving on the board and include sufficient biographical and other information concerning the candidate and his or her qualifications to permit the committee to make an informed decision as to whether further consideration of the candidate would be warranted.

The address for these communications is: Corporate Secretary, Sempra Energy, 101 Ash Street, San Diego, California 92101-3017.

### **Share Ownership Guidelines**

Our Board of Directors has established share ownership guidelines for directors and officers to further strengthen the link between company performance and compensation. The guidelines set forth minimum levels of share ownership that our directors and officers are encouraged to achieve and maintain. For non-employee directors the guideline is ownership of a number of shares having a market value equal to four times the annual retainer. For officers, the guidelines are:

<u>Executive Level</u>	<u>Share Ownership Guidelines</u>
Chief Executive Officer .....	4 × Base Salary
President and Group Presidents .....	3 × Base Salary
Executive Vice Presidents .....	3 × Base Salary
Senior Vice Presidents .....	2 × Base Salary
Other Vice Presidents .....	1 × Base Salary

The guidelines are expected to be met or exceeded within five years from becoming a director or officer. For purposes of the guidelines, shares owned include phantom shares into which compensation is deferred and the vested portion of certain in-the-money stock options as well as shares owned directly or through benefit plans. All of our directors and officers meet or exceed the share ownership levels established by the guidelines. Information concerning their shareholdings is set forth under the caption "Share Ownership."

#### Director Compensation

Directors who are not employees of Sempra Energy receive an annual base retainer of \$40,000 and the following fees for each board or committee meeting that they attend:

Board Meetings .....	\$1,000
Audit Committee Meetings	
Chair .....	\$3,000
Other Members .....	\$1,500
Other Committee Meetings	
Chair .....	\$2,000
Other Members .....	\$1,000

Directors also receive an additional \$14,500 each quarter which is deferred into phantom shares of our common stock that are retained until retirement. They may also elect to receive the balance of their fees in shares or to defer the balance into an interest-bearing account, a phantom investment fund or phantom shares.

Upon becoming a director, each non-employee director is granted a ten-year option to purchase 15,000 shares of our common stock. At each annual meeting (other than the annual meeting that coincides with or first follows the director's election to the board) each non-employee director who continues to serve as a director is granted an additional ten-year option for 5,000 shares. Each option is granted at an option exercise price equal to the fair market value of the option shares at the date of grant and becomes fully exercisable commencing with the first annual meeting following that date or upon the director's earlier death, disability, retirement or involuntary termination of board service other than for cause.

Four non-employee directors who were directors of our predecessor companies are entitled to receive retirement benefits following the conclusion of board service and all but one have attained maximum years of service credit. The annual benefit is an amount equal to the sum of our then current annual retainer and ten times the then current board meeting fee at the time the benefit is paid. It commences upon the later of the conclusion of board service or attaining age 65 and continues for a maximum period not to exceed the director's years of service as a director of the predecessor companies and up to ten years of service as a director of Sempra Energy. The actuarial equivalent of the total retirement benefit is paid to the retiring director in a single lump sum upon the conclusion of board service unless the director has elected to receive the annual benefit in lieu of a single lump sum payment.

## AUDIT COMMITTEE REPORT

The Audit Committee of the Board of Directors is comprised of the five directors named below, all of whom have been determined by the board to be independent directors. The board has also determined that all members of the committee are financially literate and the chair of the committee is an audit committee financial expert as defined by the rules of the Securities and Exchange Commission. The committee's charter, adopted by the board, is reprinted as the appendix to this proxy statement and also is posted on the company's website at [www.sempira.com](http://www.sempira.com).

The committee's responsibilities include appointing the company's independent auditors, pre-approving both audit and non-audit services to be provided by the independent auditors and assisting the board in providing oversight to the company's financial reporting process. In fulfilling its oversight responsibilities, the committee meets with the company's independent auditors, internal auditors and management to review accounting, auditing, internal controls and financial reporting matters.

It is not the committee's responsibility to plan or conduct audits or to determine that the company's financial statements and disclosures are complete, accurate and in accordance with accounting principles generally accepted in the United States and applicable laws, rules and regulations. Management is responsible for the company's financial statements, including the estimates and judgments on which they are based, as well as the company's financial reporting process, accounting policies, internal audit function, internal accounting controls, and disclosure controls and procedures. The independent auditors, Deloitte & Touche LLP, are responsible for performing an audit of the company's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles, expressing opinions as to the effectiveness of the company's internal controls over financial reporting and management's assessment of internal controls, and reviewing the company's quarterly financial statements.

The committee has discussed with Deloitte & Touche the matters required to be discussed by Statement of Auditing Standards 61 (Communications with Audit Committees), which requires the independent auditors to provide the committee with information regarding the scope and results of their audit of the company's financial statements, including information with respect to the independent auditors responsibilities under generally accepted auditing standards, significant accounting policies, management judgments and estimates, any significant audit adjustments, any disagreements with management and any difficulties encountered in performing the audit.

The committee also has received from Deloitte & Touche a letter providing the disclosures required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees) with respect to any relationships between the independent auditors and the company that in the professional judgment of Deloitte & Touche may reasonably be thought to bear on its independence. Deloitte & Touche also has discussed its independence with the committee and confirmed in the letter that, in its professional judgment, it is independent of the company within the meaning of the federal securities laws. The committee also considered whether Deloitte & Touche's provision of non-audit services to the company and its affiliates is compatible with its independence.

The committee also has reviewed and discussed with the company's senior management the audited financial statements included in the company's Annual Report on Form 10-K for the year ended December 31, 2005 and management's reports on the financial statements and internal controls. Management has confirmed to the committee that the financial statements have been prepared with integrity and objectivity and that management has maintained an effective system of internal controls. Deloitte & Touche has expressed its professional opinions that the financial statements conform with generally accepted accounting principles, management has maintained an effective system of internal controls and management's report on internal controls is fairly stated. In addition, the company's Chief Executive Officer and Chief Financial Officer have reviewed with the committee the certifications that each will file with the Securities and Exchange Commission pursuant to the requirements of the Sarbanes-Oxley Act of 2002 and the policies and procedures management has adopted to support the certifications.



Based on these considerations, the Audit Committee has recommended to the Board of Directors that the company's audited financial statements be included in the Annual Report on Form 10-K for the year ended December 31, 2005.

**AUDIT COMMITTEE**

James G. Brocksmith, Jr., *Chair*

Wilford D. Godbold, Jr.

William D. Jones

Richard G. Newman

William C. Rusnack

February 15, 2006

## SHARE OWNERSHIP

The following table shows the number of shares of our common stock beneficially owned at March 1, 2006 by each of our directors, by each of our current executive officers named in the executive compensation tables in this proxy statement, and by all of our directors and executive officers as a group. These shares, upon giving effect to the exercise of exercisable options, total approximately 1.7% of our outstanding shares.

<u>Name</u>	<u>Current Beneficial Holdings</u>	<u>Shares Subject To Exercisable Options (A)</u>	<u>Phantom Shares (B)</u>	<u>Total</u>
James G. Brocksmith, Jr. ....	235	25,000	8,606	33,841
Richard A. Collato .....	6,459	30,000	5,065	41,534
Donald E. Felsing .....	430,549	997,435	55,589	1,483,573
Wilford D. Godbold, Jr. ....	3,006	45,000	9,893	57,899
Edwin A. Guiles .....	241,027	468,395	29,126	738,548
William D. Jones .....	3,481	45,000	5,565	54,046
Richard G. Newman .....	6,007	20,000	4,880	30,887
William G. Ouchi .....	10,702	45,000	5,516	61,218
William C. Rusnack .....	4,446	25,000	5,424	34,870
William P. Rutledge .....	2,732	25,000	5,592	33,324
Neal E. Schmale .....	342,843	588,734	63,785	995,362
Mark A. Snell .....	135,077	40,000	1,828	176,905
Directors and Executive Officers as a group (15 persons) .....	1,469,330	2,688,392	209,545	4,367,267

(A) Shares which may be acquired through the exercise of stock options that are currently exercisable or will become exercisable within 60 days.

(B) Represents deferred compensation deemed invested in shares of our common stock. These phantom shares cannot be voted or transferred but track the performance of our shares.

Sempra Energy has approximately 240,000 shareholders. The only persons known to us to beneficially own more than 5% of our outstanding shares are Barclays Global Investors, N.A., 45 Fremont Street, San Francisco, California 94105, and UBS AG, Bahnhofstrasse 45, Zurich, Switzerland. Barclay's Global Investors has reported that as of December 31, 2005, it and related entities beneficially owned 13,995,912 shares (including 12,163,048 shares for which they had sole voting power) for which they had sole dispositive power. UBS has reported that at December 31, 2005, it and related entities beneficially owned 13,244,016 shares (including 7,496,573 shares for which they had sole voting power) for which they had shared dispositive power. The shares reported as beneficially owned by Barclay's Global and UBS represent 5.4% and 5.1%, respectively, of our shares outstanding at March 1, 2006.

Our employee savings and stock ownership plans held 20,019,086 shares of our common stock (approximately 7.7% of the outstanding shares) for the benefit of employees at March 1, 2006.

## **PROPOSAL 1: ELECTION OF DIRECTORS**

Our Board of Directors consists of ten directors. The board currently is divided into three classes whose terms are staggered so that approximately one-third of our directors are elected at each Annual Meeting. Please refer to "Proposal 3: Articles Amendment to Provide for the Annual Election of All Directors" for a discussion of a proposal recommended by your board to declassify the board and phase in the annual election of all directors.

At the 2006 Annual Meeting four directors will be elected for three-year terms expiring 2009. The board has determined that each of its non-officer nominees for election as a director and each non-officer director whose term of office will continue after the Annual Meeting is an independent director. Information concerning the board's independence standards is contained under the caption "Corporate Governance—Board of Directors—Director Independence."

### **Nominees**

The Corporate Governance Committee has recommended and the Board of Directors has nominated the following four individuals, all of whom are currently directors, for election as directors:

James G. Brocksmith, Jr.  
Donald E. Felsinger  
William D. Jones  
William G. Ouchi

The proxies and voting instructions solicited by the board will be voted for these four nominees unless other instructions are specified. If any nominee should become unavailable to serve, the proxies may be voted for a substitute nominee designated by the board or the board may reduce the authorized number of directors. If you do not want your shares to be voted for one or more of these nominees, you may so indicate as provided on your proxy or voting instruction card.

Information concerning each director nominee and the directors serving unexpired terms that will continue after the Annual Meeting is shown below. The year shown as election as a director is that of first election as a director of Sempra Energy or its predecessors. Unless otherwise indicated, each director has held his or her principal occupation or other positions with the same or predecessor organizations for at least the last five years.

**Nominees for election for terms expiring in 2009:**



**James G. Brocksmith, Jr.**, 65, has been a director since 2001. He is an independent financial consultant and the former Deputy Chairman and Chief Operating Officer for the U.S. operations of KPMG Peat Marwick LLP. He is a director of AAR Corp., Alberto-Culver Co. and Nationwide Financial Services.



**Donald E. Felsinger**, 58, has been a director since 2004. He is the Chairman of the Board and Chief Executive Officer of Semptra Energy.



**William D. Jones**, 50, has been a director since 1994. He is the President and Chief Executive Officer and a director of CityLink Investment Corporation and City Scene Management Company. From 1989 to 1993, he served as General Manager/Senior Asset Manager and Investment Manager with certain real estate subsidiaries of The Prudential. Prior to joining The Prudential, he served as a San Diego City Council member from 1982 to 1987. Mr. Jones is a director of Southwest Water Company and the San Diego Padres baseball club, and a trustee of the Francis Parker School. He is a former director of The Price Real Estate Investment Trust and former Chairman of the Board of the Los Angeles Branch of the Federal Reserve Bank of San Francisco.

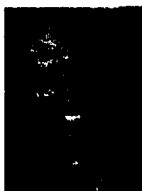


**William G. Ouchi, Ph.D.**, 62, has been a director since 1998. He is the Sanford and Betty Sigoloff Professor in Corporate Renewal in the Anderson Graduate School of Management at UCLA. Dr. Ouchi is a director of AECOM, Inc., FirstFed Financial Corp. and Water-Pik Technologies. He is a director of College Ready Public Schools, The Cardiovascular Transplantation and Research Foundation and The Japanese American National Museum.

**Directors whose terms expire in 2007:**



**Wilford D. Godbold, Jr.**, 67, has been a director since 1990. He is the retired President and Chief Executive Officer of ZERO Corporation, an international manufacturer primarily of enclosures and thermal management equipment for the electronics market. He is a director of K2, Inc. and Learning Tree International, a past President of the Board of Trustees of Marlborough School and a past Chairman of the Board of Directors of the California Chamber of Commerce and The Employers Group.



**Richard G. Newman**, 71, has been a director since 2002. He is the Chairman of AECOM Technology Corp. Mr. Newman is a director of Southwest Water Company and of 13 mutual funds under Capital Research and Management Company. He has been a member of the College of Fellows of the Institute for the Advancement of Engineering and a member of the Chief Executives Organization, American Society of Civil Engineers and National Society of Professional Engineers.



**Neal E. Schmale**, 59, has been a director since 2004. He is the President and Chief Operating Officer of Semptra Energy. He is also a director of Murphy Oil Corporation and WD-40 Company.

**Directors whose terms expires in 2008:**



**Richard A. Collato**, 62, has been a director since 1993. He is President and Chief Executive Officer of the YMCA of San Diego County. He is a former director of Y-Mutual Ltd., a reinsurance company, and The Bank of San Diego. Mr. Collato is a former trustee of Springfield College, and currently is a trustee of the YMCA Retirement Fund and Bauce Foundation, and a director of Micro Vision Optical, Inc., Project Design Consultants and WD-40 Company.



**William C. Rusnack**, 61, has been a director since 2001. Until 2002 he was the President and Chief Executive Officer and a director of Premcor, Inc. Prior to 1998, he was an executive of Atlantic Richfield Company. He is also a director of Flowserve and Peabody Energy. He is a member of the American Petroleum Institute, the Dean's Advisory Council of the Graduate School of Business at the University of Chicago and the National Council of the Olin School of Business at the Washington University in St. Louis.



**William P. Rutledge**, 64, has been a director since 2001. He was Chairman of Communications and Power Industries from 1999 to 2004. Prior to 1998, he was President and Chief Executive Officer of Allegheny Teledyne. He is also a director of AECOM, Inc. and First Federal Bank of California. He is a Trustee of Lafayette College and St. John's Hospital and Health Center.

## PROPOSAL 2: RATIFICATION OF INDEPENDENT AUDITORS

The Audit Committee of the Board of Directors has selected Deloitte & Touche LLP, an independent registered public accounting firm, to audit our financial statements and the effectiveness of our internal control over financial reporting for 2006. Representatives of Deloitte & Touche are expected to attend the Annual Meeting. They will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders.

The following table shows the fees that we paid Deloitte & Touche for 2004 and 2005.

	2004		2005	
	Fees	% of Total	Fees	% of Total
<b>Audit Fees</b>				
Sempra Energy Consolidated Financial Statement and Internal Control Audit .....	\$ 7,390,000		\$ 6,025,000	
Subsidiary, Statutory and Other Audits .....	2,937,000		3,045,000	
SEC Filings and Related Services .....	156,000		161,000	
<b>Total Audit Fees</b> .....	<b>10,483,000</b>	<b>80%</b>	<b>9,231,000</b>	<b>80%</b>
<b>Audit-Related Fees</b>				
Employee Benefit Plan Audits .....	440,000		460,000	
Accounting Consultation .....	304,000		332,000	
Other Audit-Related Services .....	122,000		90,000	
<b>Total Audit-Related Fees</b> .....	<b>866,000</b>	<b>6%</b>	<b>882,000</b>	<b>8%</b>
<b>Tax Fees</b>				
Tax Planning and Compliance .....	1,585,000		1,089,000	
Other Tax Services .....	244,000		281,000	
<b>Total Tax Fees</b> .....	<b>1,829,000</b>	<b>14%</b>	<b>1,370,000</b>	<b>12%</b>
<b>All Other Fees</b>				
	-0-		-0-	
<b>Total Fees</b> .....	<b>\$13,178,000</b>		<b>\$11,483,000</b>	

The Audit Committee is directly responsible and has sole authority for appointing, compensating, retaining and overseeing the work of our independent auditors and pre-approves all audit and permissible non-audit services provided by Deloitte & Touche. The committee's pre-approval policies and procedures provide for the general pre-approval of specific types of services, give detailed guidance to management as to the specific services that are eligible for general pre-approval and provide specific cost limits for each service on an annual basis. They require specific pre-approval of all other permitted services. For both types of pre-approval, the committee considers whether the services to be provided are consistent with maintaining the independent auditors' independence. The policies and procedures also delegate authority to the chair of the committee to address any requests for pre-approval of services between committee meetings, with any pre-approval decisions to be reported to the committee at its next scheduled meeting.

At the Annual Meeting, shareholders will be asked to ratify the appointment of Deloitte & Touche as our independent auditors for 2006. Ratification would be advisory only, but the Audit Committee would reconsider the appointment if it were not ratified. Ratification requires the favorable vote of a majority of the votes cast and the approving majority must also represent more than 25% of our outstanding shares.

**YOUR BOARD OF DIRECTORS AND ITS AUDIT COMMITTEE  
RECOMMEND THAT YOU VOTE "FOR" PROPOSAL 2**

**PROPOSAL 3: ARTICLES AMENDMENT FOR THE  
ANNUAL ELECTION OF ALL DIRECTORS**

The Board of Directors, upon the recommendation of its Corporate Governance Committee, has unanimously approved and recommends that shareholders approve an amendment to our Articles of Incorporation to provide for the annual election of all directors.

Our Articles of Incorporation currently divide the Board of Directors into three classes with directors elected for staggered three-year terms. Consequently, about one-third of our directors are elected by shareholders at each annual meeting. At prior annual meetings, our shareholders have approved proposals recommending that all directors be elected at each annual meeting. The amendment would implement that recommendation by declassifying the board and phasing in the annual election of all directors as the terms of incumbent directors expire.

The amendment would replace the board classification provision currently contained in our Articles of Incorporation with a provision that directors elected after the effective date of the amendment would hold office until the next annual meeting of shareholders and until a successor has been elected and qualified. Directors elected prior to the effective date of the amendment, including those elected at the 2006 Annual Meeting, would continue to hold office until the expiration of the staggered three-year terms for which they were elected. As the terms of incumbent directors expire, their successors as well as any directors elected to fill vacancies in the board would be elected for terms expiring at the next annual meeting. Consequently, about one-third of our directors would be elected at the 2007 annual meeting and two-thirds at the 2008 annual meeting. All of our directors would be elected at the 2009 Annual Meeting and each subsequent annual meeting.

Our Board of Directors and its Corporate Governance Committee regularly review our corporate governance practices to determine if they are in the best interests of shareholders. The committee historically has viewed our classified board as desirable to promote board continuity and stability and to encourage persons considering an acquisition of the company to negotiate with the board rather than pursue unilateral takeover proposals. The committee and the board continue to believe that these are important concerns; however, they have also considered the strong level of shareholder support for the annual election of all directors, and the views of annual election proponents that annual elections promote board accountability and classified boards may discourage favorable takeover proposals. Accordingly, upon recommendation of the committee, the board approved and recommends that shareholders approve the proposed amendment.

Approval of the amendment requires the favorable vote of the holders of not less than two-thirds of our outstanding shares. Consequently, abstaining or otherwise failing to vote on the amendment would have the same effect as a vote against its approval.

***YOUR BOARD OF DIRECTORS RECOMMENDS  
THAT YOU VOTE "FOR" PROPOSAL 3***

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#### **PROPOSAL 4: SHAREHOLDER PROPOSAL REGARDING PERFORMANCE-BASED STOCK OPTIONS**

We have included the following shareholder proposal in this proxy statement in accordance with the Securities and Exchange Commission's shareholder proposal rule. It is presented as submitted by the shareholder proponent whose name and address will be promptly provided to any shareholder who orally or in writing requests the information from our Corporate Secretary.

The shareholder proposal will be voted upon at the Annual Meeting only if properly presented by the shareholder proponent or the proponent's qualified representative. To be approved by shareholders, the proposal must receive the favorable vote of a majority of the votes cast on the proposal and the approving majority must also represent more than 25% of our outstanding shares.

#### **FOR THE REASONS STATED BELOW, YOUR BOARD OF DIRECTORS RECOMMENDS A VOTE AGAINST THE FOLLOWING SHAREHOLDER PROPOSAL**

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##### ***— Beginning of Shareholder Proposal —***

##### **Performance-Based Options Proposal**

**Resolved:** That the shareholders of Sempra Energy (the "Company") request that the Compensation Committee of the Board of Directors adopt a policy that a significant portion of future stock option grants to senior executives shall be performance-based. Performance-based options are defined as follows: (1) indexed options, in which the exercise price is linked to an industry or well-defined peer group index; (2) premium-priced stock options, in which the exercise price is set above the market price on the grant date; or (3) performance-vesting options, which vest when a performance target is met.

**Supporting Statement:** As long-term shareholders of the Company, we support executive compensation policies and practices that provide challenging performance objectives and serve to motivate executives to enhance long-term corporate value. We believe that standard fixed-price stock option grants can and often do provide levels of compensation well beyond those merited, by reflecting stock market value increases, not performance superior to the company's peer group.

Our shareholder proposal advocates performance-based stock options in the form of indexed, premium-priced or performance-vesting stock options. With indexed options, the option exercise price moves with an appropriate peer group index so as to provide compensation value only to the extent that the company's stock price performance is superior to the companies in the peer group utilized. Premium-priced options entail the setting of an option exercise price above the exercise price used for standard fixed-price options so as to provide value for stock price performance that exceeds the premium option price. Performance-vesting options encourage strong corporate performance by conditioning the vesting of granted options on the achievement of demanding stock and/or operational performance measures.

Our Company's Board recommended against a similar proposal filed last year. The Corporate Library, an independent research firm providing corporate governance data, commented on this in an Analyst Alert entitled "Board Responses at Sempra Energy: a microcosm of misunderstanding executive pay," March 3, 2005. This alert stated:

In response to a perfectly reasonable shareholder proposal that the company begin granting performance-based stock options, the Sempra Energy board responded in its latest proxy with this rebuttal ... [The Alert then quotes three paragraphs of the Board's argument against the Proposal.]

....



What are we trying to achieve here? A true and proper link between pay and performance, or the delivery of a targeted level of compensation to executives regardless of performance?

....

The proper job of a board, and particularly a compensation committee, is to drive performance through the use of efficiently designed incentive packages. It is not to design pay packages to achieve targeted levels of compensation.

We believe the use of performance-based options will help place a strong emphasis on rewarding superior corporate performance. We urge your support for this important executive compensation reform.

***— End of Shareholder Proposal —***

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**— The Board of Directors Position —**

**FOR THE REASONS STATED BELOW, YOUR BOARD OF DIRECTORS  
RECOMMENDS A VOTE AGAINST PROPOSAL 4**

The Board of Directors and its Compensation Committee believe that this proposal is unnecessary and that its implementation would not be in the best interests of shareholders.

The underlying premise of the proposal is to ensure that our executives receive the benefit of equity-based incentives only when merited by the overall performance of the company. It is unnecessary because the company's approach to executive compensation is already primarily based on company performance and its approach to equity-based compensation is heavily weighted toward performance-based restricted stock.

As described under the caption "Compensation Committee Report" the company emphasizes "pay-for-performance" with a substantial portion of total compensation reflecting corporate, business unit and individual performance and a greater portion of compensation placed at risk as levels of executive responsibilities increase. In addition, in recent years the company has placed increasing emphasis on performance-based restricted stock awards for long-term equity compensation and they now comprise about 80% of the estimated value of long-term incentive awards. As described under the caption "Executive Compensation—Performance-Based Restricted Stock Awards" these awards are subject to forfeiture and typically vest based only on the company's total return to shareholders over a four-year period in comparison to that of market indexes and the performance of peer companies.

The balance of our long-term equity compensation, about 20% of the estimated value of long-term incentive awards, is in the form of stock options. They are granted at an exercise price that is not less than 100% of the fair market value of the option shares on the date the option is granted and the exercise price may not thereafter be reduced. Although they do not meet the proposal's narrow definition of performance-based, these options have value to the executive only if the price of our shares increases over the market price at the date the option was granted. Thus, they too serve to align the interests of executives with those of shareholders.

Although the company has decreased its emphasis on stock options, the Board of Directors and the Compensation Committee believe that the company should continue to maintain the flexibility to determine the form of stock options that may be granted to executives and should not be limited to the narrow categories of options that the proposal characterizes as performance-based. A failure to maintain that flexibility could impair the company's ability to provide competitive long-term incentive programs necessary to attract and retain executives of outstanding ability and to motivate them to achieve superior performance.

**THE BOARD OF DIRECTORS RECOMMENDS THAT YOU VOTE "AGAINST" PROPOSAL 4**

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## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee of the Board of Directors has the responsibility for establishing the company's compensation principles and strategies and designing a compensation program for senior executive officers. It is comprised of the four directors named below, all of whom have been determined by the board to be independent under independence standards more rigorous than those established by the New York Stock Exchange.

The committee reviews and approves corporate goals and objectives relevant to the compensation of the company's Chief Executive Officer, evaluates his performance in light of these goals and objectives and approves his compensation based upon that evaluation. The committee also makes recommendations to the board with respect to the compensation program for other executive officers, incentive compensation plans and equity-based plans.

The committee has sole authority for compensating and retaining consultants and advisors to assist the committee in performing its responsibilities. As its compensation consultants, the committee has retained Hewitt Associates an internationally recognized compensation and benefits consulting firm.

### **Compensation Principles and Strategies**

In developing compensation principles and strategies, the Compensation Committee considers the current and prospective business environment for Sempra Energy and takes into account numerous factors, including:

- The rapidly changing and increasingly competitive environment in which the company operates.
- The need to attract and retain executives of outstanding ability and proven experience who demonstrate the highest standards of integrity and ethics.
- The need to motivate executives to achieve superior performance.
- The need to strongly link executive compensation to both annual and long-term corporate, business unit and individual performance.
- The need to align the interests of executives and shareholders.

To reflect these factors and assist the company in realizing its objective of creating superior shareholder value, the committee has developed policies and programs that include the following elements:

- An emphasis on total compensation and "pay-for-performance," with a substantial portion of total compensation reflecting corporate, business unit and individual performance.
- An emphasis on performance-based incentives that closely align the interests of executives and shareholders.
- An appropriate balance of short-term and long-term compensation to reward long-term strategic results and encourage share ownership.
- An emphasis on placing at risk, through equity and other performance-based incentives, a greater portion of executive compensation as levels of responsibilities increase.

In accordance with these principles and strategies the committee establishes base salaries at competitive levels with those of companies of comparable size. It provides performance-based annual cash and equity-based long-term incentives that provide opportunities to earn total compensation at significantly higher levels for superior performance.

The committee also considers provisions of the Internal Revenue Code limiting to \$1,000,000 the annual amount of compensation (other than compensation that qualifies as "qualified performance-based compensation") that publicly held companies may deduct for federal income tax purposes for certain executive officers. The

committee believes that tax deductibility is an important factor but only one factor to be considered in evaluating a compensation program. It believes competitive and other circumstances may require that the interests of the company and its shareholders are best served by providing compensation that is not fully tax deductible. Accordingly, the committee may continue to exercise discretion to provide base salaries or other compensation that may not be fully tax deductible to the company.

### **Compensation Program**

The primary components of Sempra Energy's compensation program are base salaries, annual cash incentive opportunities and long-term equity and equity-based incentive opportunities.

#### *Base Salaries*

Base salaries for executives are reviewed annually by the committee and generally targeted at the median of salaries at general industry companies of similar size. The committee believes that this strategy, along with annual and long-term incentive opportunities at general industry levels, allows the company to attract and retain top-quality executive talent.

Survey data for assessing base salaries are based upon companies in the Fortune 500 and size-adjusted based upon the company's revenues using regression analysis. The committee believes that the company's competitors for executive talent are not limited to energy companies, and the Fortune 500 appropriately reflects a broader group with which it competes to attract and retain highly skilled and talented executives.

Annual base salaries for executive officers are set taking into consideration the approximate mid-range of these salary data, individual performance and experience, executive responsibilities, market characteristics, succession planning and other pertinent factors.

#### *Annual Incentives*

Annual performance-based incentive opportunities are provided to executive officers through cash bonuses under an Executive Incentive Plan approved by shareholders. The plan permits the payment of bonuses based upon the attainment of objective financial performance goals. Bonus opportunities vary with the individual officer's position and prospective contribution to the attainment of these goals, and no bonuses are paid unless a threshold performance level is attained for the year. Bonus opportunities increase for performance above the threshold level, with performance at targeted levels intended to produce bonuses at the mid-point of those for executives with comparable levels of responsibility at Fortune 500 companies.

Executive Incentive Plan bonuses for 2005 were based on an earnings target of \$800 million, an increase of 22% over the earnings target for the prior year, with maximum bonuses for earnings of \$900 million, an increase of 23% over the maximum performance threshold for the prior year. Bonuses for targeted earnings performance were set at levels ranging from 100% of base salary for the Chief Executive Officer to 45% of base salary for Vice Presidents, with maximum bonuses ranging from 200% to 90% of base salary, subject to discretionary adjustments by the Compensation Committee for extraordinary performance.

Earnings for 2005 were \$920 million, exceeding that required for maximum bonuses. The committee also approved an increased bonus for Stephen L. Baum, who retired as Chief Executive Officer on December 31, 2005, in recognition of his leadership in obtaining an agreement to settle major litigation, his willingness to remain available for consultation during 2006, and the company's overall strong position and outstanding financial performance. Bonus amounts are set forth under the caption "Executive Compensation—Compensation Summary."

#### *Long-Term Incentives*

Long-term incentive opportunities are provided by performance-based awards under a Long-Term Incentive Plan approved by shareholders. The plan permits a wide variety of equity and equity-based incentive awards to

allow the company to respond to changes in market conditions and compensation practices. Long-term incentive awards are made annually and set at estimated grant date values ranging from 345% of base salary for the Chief Executive Officer to 90% of base salary for Vice Presidents.

Beginning in 2002, the Compensation Committee decreased its emphasis on stock options as incentive awards. Approximately 80% of the estimated value of 2005 long-term incentive awards was performance-based restricted stock with the balance in stock options. These awards are summarized under the captions "Executive Compensation—Stock Options" and "Executive Compensation—Restricted Stock."

#### **Evaluation and Compensation of the Chief Executive Officer**

The Compensation Committee annually reviews and approves corporate goals and objectives relevant to the compensation of the Chief Executive Officer. These are based primarily upon objective criteria, including business performance, accomplishment of strategic and financial objectives, development of management, and other matters relevant to the short-term and long-term success of the company and the creation of shareholder value.

The committee also annually evaluates the Chief Executive Officer's performance in light of these criteria, reports the results of its evaluation to the board for its consideration, and communicates the results of the committee's evaluation and the board's consideration to him. Based upon this evaluation and subject to ratification by the board acting solely through the independent directors, the committee determines the Chief Executive Officer's compensation level, including base salary and performance standards and awards under annual and long-term incentive plans. In determining the long-term component of his compensation, the committee considers the company's performance and relative shareholder return, the value of incentive awards to chief executive officers at comparable companies and the awards granted in past years.

#### **Evaluation and Compensation of Other Corporate Officers**

The Compensation Committee also recommends a compensation program to the Board of Directors and oversees the evaluation and compensation of other members of the senior officer group.

In consultation with the Chief Executive Officer the committee reviews and approves the compensation level, including base salary and performance standards and awards under annual and long-term incentive plans for each member of the senior officer group. The committee also reviews the compensation of those corporate officers and other key management personnel who are not members of the senior officer group.

The committee also considers, from time to time, all aspects of the elements of compensation to all corporate officers, including benefits, short-term and long-term incentives.

#### **Share Ownership Guidelines**

The Compensation Committee believes that a commitment to significant share ownership by executives is an important element in aligning the interests of executives with those of shareholders. This belief has influenced the design of the company's compensation plans and, in addition, the Board of Directors has established share ownership guidelines to further strengthen the link between company performance and compensation. These guidelines are summarized under the caption "Corporate Governance—Share Ownership Guidelines."

#### **COMPENSATION COMMITTEE**

William C. Rusnack, *Chair*

Richard A. Collato  
William G. Ouchi  
William P. Rutledge

February 16, 2006

## EXECUTIVE COMPENSATION

### Compensation Summary

The table below summarizes, for the last three years, the compensation that we paid or accrued to each of the five named executive officers.

**Summary Compensation Table**

Name and Principal Position	Year	Annual Compensation		Long-term Compensation			All Other Compensation (D)
		Salary	Bonus	Awards		Payouts	
				Restricted Stock Awards (A)(B)(C)	Shares Underlying Stock Options	LTIP Payouts (A)(C)	
Stephen L. Baum (E) . . . . .	2005	\$1,128,526	\$3,000,000	\$ -0-	95,800	\$ -0-	\$881,231
Chairman and	2004	\$1,090,563	\$2,183,400	\$ -0-	155,300	\$ -0-	\$540,560
Chief Executive Officer	2003	\$1,053,739	\$2,159,400	\$ -0-	209,600	\$ -0-	\$739,403
Donald E. Felsing (E) . . . . .	2005	\$ 775,289	\$1,242,100	\$ -0-	118,300	\$ -0-	\$368,734
President and	2004	\$ 704,366	\$1,134,700	\$ -0-	98,200	\$ -0-	\$329,939
Chief Operating Officer	2003	\$ 630,823	\$ 884,000	\$ -0-	101,800	\$ -0-	\$217,901
Neal E. Schmale (E) . . . . .	2005	\$ 620,192	\$ 869,400	\$ -0-	42,800	\$ -0-	\$279,076
Executive Vice President	2004	\$ 563,174	\$ 787,800	\$3,389,000	46,600	\$ -0-	\$262,642
and Chief Financial Officer	2003	\$ 499,328	\$ 600,000	\$ -0-	62,000	\$ -0-	\$223,704
Edwin A. Guiles . . . . .	2005	\$ 573,151	\$ 803,500	\$ -0-	39,500	\$ -0-	\$182,688
Group President—Semptra	2004	\$ 553,742	\$ 776,200	\$ -0-	64,000	\$ -0-	\$170,043
Energy Utilities	2003	\$ 532,515	\$ 746,200	\$ -0-	86,000	\$ -0-	\$156,431
Mark A. Snell (E) . . . . .	2005	\$ 443,461	\$ 621,900	\$ -0-	30,600	\$207,594	\$ 68,816
Group President—Semptra	2004	\$ 363,062	\$ 459,300	\$ -0-	21,500	\$171,741	\$ 77,338
Global	2003	\$ 311,677	\$ 244,800	\$ -0-	28,800	\$162,108	\$113,600

- (A) Performance-based restricted stock awards are reported under the caption "Executive Compensation—Performance-Based Restricted Stock" in the year awarded and in the Summary Compensation Table as LTIP Payouts in the year the awards vest.
- (B) Represents the fair market value at the date of grant (without any deduction for forfeiture conditions or transfer restrictions) of shares subject to restricted stock awards that are not performance-based. Consists solely of a 100,000 share award to Mr. Schmale one-half of which will vest in 2008 and the remaining one-half in 2010 subject to continued employment and to earlier vesting upon a change of control and various other events.
- (C) The aggregate holdings/value of unvested shares of restricted stock held on December 31, 2005 were 451,413 shares/\$20,241,375 for Mr. Baum; 277,061 shares/\$12,423,406 for Mr. Felsing; 258,680 shares/\$11,599,193 for Mr. Schmale; 185,729 shares/\$8,328,070 for Mr. Guiles; and 86,699 shares/\$3,887,562 for Mr. Snell. These include additional shares purchased, at then fair market value, with dividends paid on restricted stock that become subject to the same forfeiture conditions and transfer restrictions as the shares to which the dividends relate. In accordance with Mr. Baum's employment agreement, all of his restricted stock became fully vested and all forfeiture conditions and transfer restrictions terminated upon his retirement on January 31, 2006.
- (D) All other compensation includes (i) interest on deferred compensation above 120% of the applicable federal rate, (ii) executive medical, life and personal liability insurance premiums, (iii) financial and estate planning services, (iv) contributions to defined contribution plans and related supplemental plans, and (v) car allowances. The respective amounts for 2005 were \$190,632, \$552,452, \$13,488, \$110,359 and \$14,300 for

Mr. Baum; \$87,565, \$192,414, \$10,000, \$64,455 and \$14,300 for Mr. Felsing; \$62,942, \$143,871, \$10,000, \$47,963 and \$14,300 for Mr. Schmale; \$517, \$111,804 \$10,000, \$46,067 and \$14,300 for Mr. Guiles; and \$1,320, \$43,198, \$0, \$9,998 and \$14,300 for Mr. Snell.

- (E) Mr. Baum retired as Chief Executive Officer on December 31, 2005 and as Chairman of the Board on January 31, 2006. Mr. Felsing has succeeded Mr. Baum as Chairman of the Board and Chief Executive Officer; Mr. Schmale has succeeded Mr. Felsing as President and Chief Operating Officer; and Mr. Snell has succeeded Mr. Schmale as Executive Vice President and Chief Financial Officer.

Frank H. Ault is a Senior Vice President and the Controller of the company. His daughter is employed by a subsidiary of the company at a 2005 salary and bonus of approximately \$75,000.

### Stock Options

The following table shows information as to stock options granted during 2005 to our executive officers named in the Summary Compensation Table. All options were granted at an exercise price of 100% of the fair market value of the option shares on the date of the grant and for a ten-year term subject to earlier expiration following termination of employment. They become exercisable in cumulative installments of one-fourth of the shares initially subject to the option on each of the first four anniversaries of the date of grant, with immediate exercisability upon a change of control or various events specified in the executive's employment or severance pay agreement.

#### Option Grants in 2005

<u>Name</u>	<u>Number of Shares Underlying Options Granted</u>	<u>% of Total Options Granted to Employees in 2005</u>	<u>Exercise Price (\$/Share)</u>	<u>Expiration Date</u>	<u>Grant Date Present Value (A)</u>
Stephen L. Baum .....	95,800	10.57%	\$36.30	1-2-15	\$779,812
Donald E. Felsing .....	57,300	6.32%	\$36.30	1-2-15	\$466,422
	61,000	6.73%	\$44.64	12-5-15	\$540,460
Neal E. Schmale .....	42,800	4.72%	\$36.30	1-1-15	\$348,392
Edwin A. Guiles .....	39,500	4.36%	\$36.30	1-1-15	\$321,530
Mark A. Snell .....	30,600	3.38%	\$36.30	1-1-15	\$249,084

- (A) We used a modified Black-Scholes option pricing model to develop the theoretical values set forth in this column. Grant date present value per option share for the options granted at an exercise price of \$36.30 was \$8.14 based on the following assumptions: share volatility—27.75%; dividend yield—2.75%; risk-free rate of return—4.19%; and outstanding term—10 years. Grant date present value for the options granted at an exercise price of \$44.64 was \$8.86 based on the following assumptions: share volatility—20.48%; dividend yield 2.60%; risk-free rate of return 4.22%; and outstanding term—10 years.

The following table shows information as to the exercise of stock options during 2005 and unexercised options held on December 31, 2005 by our executive officers named in the Summary Compensation Table.

#### Option Exercises and Holdings

Name	Shares Acquired on Exercise	Value Realized	Number of Shares Underlying Unexercised Options at Year-End		Value of Unexercised In-the-Money Options at Year-End (A)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Stephen L. Baum (B) . . . . .	680,400	\$14,123,923	1,506,625	494,275	\$31,316,223	\$8,224,986
Donald E. Felsing . . . . .	222,600	\$ 4,953,174	852,610	328,950	\$17,927,799	\$4,287,736
Neal E. Schmale . . . . .	96,700	\$ 1,873,978	499,409	160,225	\$10,333,887	\$2,544,853
Edwin A. Guiles . . . . .	100,000	\$ 1,707,290	480,820	203,200	\$ 9,918,839	\$3,379,349
Mark A. Snell . . . . .	-0-	\$ -0-	19,775	61,125	\$ 373,458	\$ 792,162

(A) The exercise price of outstanding options ranges from \$19.06 to \$44.64.

(B) In accordance with Mr. Baum's employment agreement, all of his stock options became fully vested and immediately exercisable upon his retirement on January 31, 2006 and remain exercisable throughout their original ten-year term.

#### Performance-Based Restricted Stock

The following table shows information as to performance-based restricted stock granted during 2005 to our executive officers named in the Summary Compensation Table.

#### Performance-Based Restricted Stock Awards in 2005

Name	Number of Restricted Shares	Performance Period Until Payout	Estimated Future Payouts (A)
Stephen L. Baum (B) . . . . .	132,200	Four Years	\$4,798,860
Donald E. Felsing (C) . . . . .	101,400	Four Years	\$3,867,636
Neal E. Schmale . . . . .	59,000	Four Years	\$2,141,700
Edwin A. Guiles . . . . .	54,500	Four Years	\$1,978,350
Mark A. Snell . . . . .	42,200	Four Years	\$1,531,860

(A) The estimated future payout amount represents the entire fair market value on the grant dates of the shares subject to the restricted stock award without any reduction for forfeiture conditions or transfer restrictions. The actual payout (if any) will depend upon the extent to which performance goals are achieved and upon the then fair market value of our common stock.

(B) In accordance with Mr. Baum's employment agreement, all of his restricted stock became fully vested and all forfeiture conditions and transfer restrictions terminated upon his retirement on January 31, 2006.

(C) Mr. Felsing received a grant of 79,000 shares in January 2005 and an additional grant of 22,400 shares in December 2005.

Performance-based restricted stock consists of shares of our common stock that are subject to forfeiture conditions and transfer restrictions that terminate upon the satisfaction of long-term performance criteria. During the performance period, the executive is entitled to vote the shares but they cannot be sold or otherwise transferred and dividends are reinvested to purchase additional shares, at then fair market value, which become subject to the same forfeiture conditions and transfer restrictions as the shares to which the dividends relate. If the performance criteria are not satisfied or the executive's employment is terminated during the performance period (other than by death or retirement after attaining age 55) the restricted shares are forfeited to the company and canceled subject to earlier vesting upon a change of control or various events specified in the executive's employment or severance pay agreement.



The forfeiture conditions and transfer restrictions on performance-based restricted stock granted during 2005 will terminate at the end of four-year performance periods if the company has then achieved a cumulative total return to shareholders for the applicable performance period that places it among the top 50% of the companies in the Standard & Poor's Utility Index or the Standard & Poor's 500 Composite Stock Price Index. If neither of these performance criteria is satisfied, the forfeiture conditions and transfer restrictions may be terminated as to a portion of the shares if the company's cumulative total shareholder return for the four-year performance period is among the top 70% of the companies in the S&P Utility Index. They will terminate as to 80% of the shares for performance among the top 55% of the companies in the S&P Utility Index with the percentage of shares as to which the restrictions may terminate declining ratably to 20% for performance among the top 70% of the companies in the S&P Utility Index. Any performance-based restricted stock for which forfeiture conditions and transfer restrictions are not terminated as of the end of applicable performance period will be forfeited to the company and canceled.

### Pension Plans

The following table shows the estimated single life annual pension annuity benefit to be provided to executive officers under our supplemental executive retirement plan (combined with benefits payable under our other pension plans in which the officers also participate) based on the specified compensation levels and years of credited service and retirement at age 65.

**Pension Plan Table**  
(\$000's)

Pension Plan Compensation	Years of Service				
	5	10	20	30	40
\$ 500 .....	\$100	\$ 200	\$ 300	\$ 313	\$ 325
\$1,000 .....	\$200	\$ 400	\$ 600	\$ 625	\$ 650
\$1,500 .....	\$300	\$ 600	\$ 900	\$ 938	\$ 975
\$2,000 .....	\$400	\$ 800	\$1,200	\$1,250	\$1,300
\$2,500 .....	\$500	\$1,000	\$1,500	\$1,563	\$1,625

Pension benefits are based on average salary for the highest two years of service and the average of the three highest annual bonuses during the last ten years of service and are paid without any offset for Social Security benefits. Years of service for the executive officers named in the Summary Compensation Table are 21 years for Mr. Baum, 33 years for Mr. Felsing, 8 years for Mr. Schmale, 33 years for Mr. Guiles and 5 years for Mr. Snell.

Messrs. Baum, Felsing and Guiles are each entitled to pension benefits at the greater of that provided by our pension plans or that to which they would have been entitled under the pension plans (including a supplemental pension plan) of a predecessor company had those plans remained in effect. Under the predecessor plans and retirement after attaining age 62, they would each be entitled to a monthly pension benefit of 60% of final pay. Final pay is defined as the monthly base pay rate in effect during the month immediately preceding retirement, plus one-twelfth of the average of the highest three years' gross bonus awards. The plans provide for reduced pension benefits for retirement between the ages of 55 and 61, and surviving spouse and disability benefits equal to 100% of pension benefits. Mr. Baum retired on January 31, 2006 and, pursuant to deferral elections made in 2003 and 2005, the lump sum actuarial equivalent of substantially all of his \$178,880 monthly pension benefit was deferred for future receipt under the company's deferred compensation plan.

## **Employment and Employment-Related Agreements**

### *Stephen L. Baum*

Stephen L. Baum retired as our Chief Executive Officer on December 31, 2005 and as our Chairman of the Board on January 31, 2006. In accordance with Mr. Baum's employment agreement, upon his retirement all outstanding equity-based incentive compensation awards that had been granted to him immediately vested and became exercisable or payable and all restrictions on the awards immediately lapsed. Also in accordance with the agreement, for a period of five years the company will continue Mr. Baum's participation in the company's executive and personal liability insurance plans; will continue to match Mr. Baum's charitable contributions in a matching amount not to exceed \$20,000 in any calendar year; and will provide Mr. Baum with administrative support and services. Under the agreement, the company will also provide Mr. Baum's family with financial planning services until two years after the death of Mr. Baum and his wife.

### *Donald E. Felsinger*

We have a severance pay agreement with Donald E. Felsinger, who succeeded Mr. Baum as our Chairman of the Board and Chief Executive Officer, for an initial term ending on August 17, 2007 and subject to automatic one-year extensions on August 17, 2006 and on each August 17 thereafter unless we or Mr. Felsinger elect not to extend the term. The agreement provides for an annual base salary for Mr. Felsinger of not less than \$750,000.

Mr. Felsinger's severance pay agreement provides that if we were to terminate his employment (other than for cause, death or disability) or he were to do so for good reason, he would receive a lump sum payment equal to (i) the sum of his annual base salary and the greater of his target bonus for the year of termination or the average of the three years' highest gross annual bonus awards in the five years preceding the year of termination, and in the event of termination within two years following a change in control such payment would be multiplied by two and (ii) a pro rata portion for the year of termination of the target amount payable under any annual incentive compensation awards for that year or, if greater, the average of the three years' highest gross bonus awards paid to him in the five years preceding the year of termination. In addition, (i) all equity-based incentive compensation awards would immediately vest and become exercisable or payable and all restrictions on the awards would immediately lapse with any performance criteria assumed to have been achieved at target levels; (ii) all cash-based long-term incentive awards would be paid pro rata at target amounts; (iii) life, disability, accident and health insurance benefits would be continued for two years; and (iv) financial planning and outplacement services would be provided for two years, and an additional one year in the event of termination following a change in control. Mr. Felsinger's agreement also provides for two additional years of age and service credit (three additional years in the event of termination within two years following a change in control) for purposes of the calculation of retirement benefits.

The agreement also provides that in the event we were terminate the Mr. Felsinger's employment (other than for cause, death or disability) or he were to do so for good reason and he were to agree to provide consulting services to the company for two years and abide by certain covenants regarding non-solicitation of employees and information confidentiality, he would receive an additional lump sum payment equal to the sum of his annual base salary and the greater of his target bonus for the year of termination or the average of the three years' highest gross annual bonus awards in the five years preceding the year of termination, and life, disability, accident and health insurance benefits would also be continued for one additional year.

The agreement also provides for a gross-up payment to offset the effects of any excise taxes imposed on Mr. Felsinger under Section 4999 of the Internal Revenue Code.

Good reason is defined in the agreement to include an adverse change in Mr. Felsinger's title, authority, duties, responsibilities or reporting lines; a reduction in his annual base salary or aggregate annualized compensation and benefit opportunities other than across-the-board reductions prior to a change in control that similarly affect all executives whose compensation is directly determined by the Compensation Committee; and a substantial increase in his business travel obligations. It also defines good reason to include a relocation of

Mr. Felsinger's principal place of employment that occurs following a change in control. A change in control is defined to include the acquisition by one person or group of 20% or more of our share voting power; the election of a new majority of the board comprised of individuals who are not recommended for election by two-thirds of the current directors or successors to the current directors who were so recommended for election; certain mergers, consolidations or sales of assets that result in our shareholders owning less than 60% of the voting power of the company or of the surviving entity or its parent; and approval by our shareholders of the liquidation or dissolution of the company.

#### *Other Named Executive Officers*

We also have a severance pay agreement with each of our three other executive officers named in the Summary Compensation Table. Each agreement is for a remaining term of two years, subject to automatic annual extensions for an additional year unless we or the executive elect not to extend the term.

The severance pay agreements provide that in the event we were to terminate the executive's employment (other than for cause, death or disability) or the executive were to do so for good reason, the executive would receive (i) a lump sum cash payment equal to the executive's annual base salary and the greater of the executive's average annual bonus or average annual target bonus for the two years prior to termination; (ii) continuation of health insurance benefits for a period of one year; and (iii) financial planning and outplacement services for two years. If the termination were to occur within two years after a change in control of the company (i) the lump sum cash payment would be multiplied by two; (ii) an additional lump sum payment would be paid equal to the pro rata portion for the year of termination of the target amount payable under any annual incentive compensation award for that year or, if greater, the average of the three highest gross annual bonus awards paid to the executive in the five years preceding the year of termination; (iii) all equity-based incentive compensation awards would immediately vest and become exercisable or payable and any restrictions on the awards would automatically lapse; (iv) a lump sum cash payment would be made equal to the present value of the executive's benefits under our supplemental executive retirement plan calculated on the basis of the greater of actual years of service and years of service that would have been completed upon attaining age 62 and applying certain early retirement factors, or in the case of Neal Schmale calculated with three additional years of age and service credits; (v) life, disability, accident and health insurance benefits would be continued for two years and (vi) financial planning and outplacement services would be provided for three years.

The agreements also provide that in the event we were to terminate the executive's employment (other than for cause, death or disability) or the executive were to do so for good reason and the executive agrees to provide consulting services to Sempra Energy for two years and abide by certain covenants regarding non-solicitation of employees and information confidentiality, (i) the executive would receive an additional lump sum payment equal to the executive's annual base salary and the greater of the executive's target bonus for the year of termination or the average of the two or three highest gross annual bonus awards paid to the executive in the five years prior to termination and (ii) health insurance benefits would be continued for one additional year.

The agreements also provide for a gross up payment to offset the effects of any excise tax imposed on the executive under Section 4999 of the Internal Revenue Code.

Good reason is defined in the severance agreements to include the assignment to the executive of duties materially inconsistent with those appropriate to a senior executive of the company; a material reduction in the executive's overall standing and responsibilities within the company; and a material reduction in the executive's annualized compensation and benefit opportunities other than across-the-board reductions affecting all similarly situated executives of comparable rank. Following a change in control of the company, good reason is defined to include an adverse change in the executive's title, authority, duties, responsibilities or reporting lines; reduction in the executive's annualized compensation opportunities other than across-the-board reductions of less than 10% similarly affecting all similarly situation executives of comparable rank; relocation of the executive's principal place of employment by more than 30 miles; and a substantial increase in business travel obligations. A change in control is defined in the same manner as in the agreement with Mr. Felsinger that is summarized above.

## **GENERAL INFORMATION**

### **Other Matters to be Voted Upon**

We do not know of any matter that may be voted on at the Annual Meeting that is not described in this proxy statement other than shareholder proposals that have been excluded in accordance with the rules of the Securities and Exchange Commission. The holders of the proxies that we are soliciting are authorized to vote them in accordance with their best judgment on the excluded proposals and any other matter that may be voted on at the meeting as well as on matters incident to the conduct of the meeting.

### **Shareholder Proposals for the 2007 Proxy Statement**

Any shareholder satisfying the Securities and Exchange Commission's eligibility requirements who wishes to submit a proposal to be included in the proxy statement for our 2007 Annual Meeting of Shareholders should do so in writing to our Corporate Secretary, Semptra Energy, 101 Ash Street, San Diego, California 92101-3017. We must receive the proposal by November 22, 2006 to consider it for inclusion in the proxy statement.

### **Director Nominees or Other Business for Presentation at Annual Meetings**

Shareholders who wish to present director nominations or other business at an Annual Meeting must notify our Corporate Secretary of their intention to do so at least 60 days, but not more than 120 days, before the date corresponding to the date of the last annual meeting. The notice must also provide the information required by our bylaws.

The deadline for notification of these matters for the 2006 Annual Meeting has expired. The period for notification for the 2007 Annual Meeting will begin on January 4, 2007 and end on March 5, 2007. This requirement does not apply to the deadline for submitting shareholder proposals for inclusion in our proxy statement that is described above or to questions a shareholder may wish to ask at the meeting.

### **Share Ownership Reporting**

Our directors and executive officers are required to file with the Securities and Exchange Commission reports regarding their ownership of our shares. Based solely on a review of copies of the reports that have been furnished to us and written representations from directors and officers that no other reports were required, we believe that all filing requirements were timely met during 2005.

### **Other Information**

Our consolidated financial statements are included in our Annual Report to Shareholders that is being mailed together with this proxy statement. Additional information regarding the company is included in our Annual Report on Form 10-K, which we file with the Securities and Exchange Commission, 450 Fifth Street, N.W., Washington, D.C. 20549. We will furnish a copy of our 2005 Form 10-K (excluding exhibits) without charge to any shareholder who requests the report. The Form 10-K, other reports we file with the commission, and other information regarding the company are available on our website at [www.sempra.com](http://www.sempra.com).

Shareholders may also obtain, without charge, a copy of our bylaws, corporate governance guidelines, codes of conduct and charters of our board committees. They are also available on our website at [www.sempra.com](http://www.sempra.com).

Only one proxy statement and the accompanying Annual Report to Shareholders may be delivered to multiple shareholders who share the same address unless we receive contrary instructions from one or more of the shareholders. A shareholder at a shared address who does not receive but wishes to receive a separate set of these documents may request them, orally or in writing, from our Shareholders Services Department and we will

promptly deliver them to him or her. Shareholders who share an address and are receiving multiple sets of these documents but who wish in the future to receive only one set should also call or write our Shareholder Services Department.

Requests to Shareholder Services relating to any of these documents may be submitted by calling (877) 736-7727 or writing to: Shareholder Services, Sempra Energy, 101 Ash Street, San Diego, California 92101-3017.

#### **Solicitation of Proxies**

We will pay the cost of soliciting proxies. We have retained Morrow & Co., Inc. to assist us in the solicitation. Morrow & Co. may solicit proxies by mail, in person or by telephone at an estimated cost to us of \$12,500 plus reimbursement of reasonable out-of-pocket expenses. Our employees may also solicit proxies on behalf of the Company.

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This Notice of Annual Meeting and Proxy Statement are sent by order of the Sempra Energy Board of Directors.

Catherine C. Lee  
*Corporate Secretary*

Dated: March 10, 2006

**Sempra Energy**

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**Audit Committee Charter**

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*The Audit Committee is a committee of the Board of Directors of Sempra Energy. Its charter was adopted by the board on December 2, 2003 and amended through November 8, 2005.*

**I**

**Purpose**

The purpose of the Audit Committee is to assist the Board of Directors in fulfilling the board's oversight responsibilities regarding:

- The integrity of the corporation's financial statements.
- The corporation's compliance with legal and regulatory requirements.
- The independent auditor's qualifications and independence.
- The performance of the corporation's internal audit function and independent auditor.

The committee also prepares the committee report as required by the rules of the Securities and Exchange Commission to be included in the corporation's proxy statement.

The committee's responsibilities are limited to oversight. Management of the corporation is responsible for the corporation's financial statements, including the estimates and judgments on which they are based, as well as the corporation's financial reporting process, accounting policies, internal audit function, internal accounting controls and disclosure controls and procedures. The independent auditor is responsible for performing an audit of the corporation's annual financial statements, expressing an opinion as to the conformity of the annual financial statements with generally accepted accounting principles and reviewing the corporation's quarterly financial statements. It is not the responsibility of the committee to plan or conduct audits or to determine that the corporation's financial statements and disclosures are complete and accurate and in accordance with generally accepted accounting principles and applicable laws, rules and regulations.

Each member of the committee is entitled to rely on the persons within the corporation and the professionals and experts (including the independent auditor and the corporation's internal auditor) from which the committee receives information and upon the accuracy of the financial and other information they provide to the committee.

The members of the committee are not auditors and in fulfilling their responsibilities under this charter are not expected to follow the policies or procedures of independent or internal auditors. In particular, the term "review" as used in this charter is not intended to have the meaning set forth in Statement of Accounting Standards No. 71 (which defines the term "review" to include a particular set of required procedures to be undertaken by independent auditors) and should not be interpreted to suggest that the committee members should follow the procedures required of auditors.

## II

### Structure

#### 2.1 Membership

The committee consists of no fewer than three members of the board. The committee's members, including its chair, are appointed by the board upon the recommendation of the board's Corporate Governance Committee. The board, upon such recommendation, also may appoint one or more additional members of the board as alternate members of the committee to replace any absent member at any committee meeting.

Members of the committee are not required to be financial, accounting or auditing professionals and, consequently, some members or alternate members may not be expert in financial matters or in matters involving accounting or auditing. However, each member and alternate member must be "independent" and "financially literate" and at least one member must be an "audit committee financial expert" within the meaning of the corporation's Corporate Governance Guidelines and the rules and regulations of the New York Stock Exchange and the Securities and Exchange Commission.

No member or alternate member of the committee may simultaneously serve on the audit committee of more than two other public companies, unless the board has affirmatively determined that such simultaneous service would not impair his or her ability to serve effectively on the committee and such determination is disclosed in the corporation's proxy statement.

All committee members and alternate members serve at the pleasure of the board and any member or alternate member may be removed, with or without cause, by the board.

#### 2.2 Power and Authority

In addition to the powers and responsibilities expressly delegated to the committee in this charter, the committee may exercise any other powers and carry out any other responsibilities from time to time delegated to it by the board. The committee also may conduct or authorize investigations into any matter within the scope of the duties and responsibilities delegated to the committee.

The powers and responsibilities delegated to the committee may be exercised in any manner the committee deems appropriate (including delegation to subcommittees) and without any requirement for board approval except as otherwise specified in this charter or the board's delegation. Any decision by the committee, including any decision to exercise or refrain from exercising any of its delegated powers, is at the committee's sole discretion. While acting within the scope of the powers and responsibilities delegated to it, the committee may exercise all the powers and authority of the board and, to the fullest extent permitted by law, has the authority to determine which matters are within the scope of its delegated authority.

The committee has the authority to retain and compensate independent counsel, consultants and other experts and advisors (accounting, financial or otherwise) and also may use the services of the corporation's regular counsel or other advisors to the corporation. The corporation will provide appropriate funding, as determined by the committee, for payment of compensation to the independent auditor for the purpose of preparing or issuing an audit report or performing other audit, review or attest services, for payment of compensation to any experts or advisors retained by the committee and for payment of ordinary administrative expenses of the committee.

#### 2.3 Procedures

The committee will determine its own rules of procedure with respect to the call, place, time and frequency of its meetings. In the absence of such rules, the committee will meet at the call of its chair as appropriate to accomplish the purposes of the committee, but the committee will meet on a regularly scheduled basis at least

once each quarter and periodically meet separately with management, with the internal auditor, with the independent auditor and with the chief legal officer.

A majority of the members of the committee will constitute a quorum for the transaction of business. Notice of meetings of the committee will be given as provided in the corporation's bylaws.

Directors who are not members of the committee may attend and observe meetings of the committee, but shall not be entitled to vote. The committee may, at its discretion, include in its meetings members of management, representatives of the independent auditor, the internal auditor, any other accounting or professional personnel employed or retained by the corporation or any other person whose presence the committee believes to be desirable and appropriate. Notwithstanding the foregoing, the committee may exclude from its meetings any non-member who it deems appropriate to exclude.

The chair of the committee will report on the committee's activities to the board at appropriate times and as otherwise requested by the chairman of the board.

## **2.4 Committee Secretary**

The secretary of the corporation will act as the committee's secretary. The secretary will attend all meetings; keep minutes of the committee's proceedings; advise members of all meetings; arrange with the committee chair or other convening authority for preparation and distribution of committee agenda and supporting material for each meeting; at the direction of the committee chair, make logistical and other arrangements for each meeting; and carry out other functions as may be assigned from time to time by the committee.

# **III**

## **Duties and Responsibilities**

### **3.1 Interaction with the Independent Auditor**

- (a) *Appointment and Oversight.* The committee is directly responsible and has sole authority for the appointment, compensation, retention and oversight of the work of the independent auditor (including resolution of any disagreements between management and the independent auditor regarding financial reporting) for the purpose of preparing or issuing an audit report or related work or performing other audit, review or attest services for the corporation, and the independent auditor reports directly to the committee.
- (b) *Pre-Approval of Services.* Before the independent auditor is engaged by the corporation or its subsidiaries to render audit or non-audit services, the committee will pre-approve the engagement. Committee pre-approval of audit and non-audit services is not required if the engagement for the services is entered into pursuant to pre-approval policies and procedures established by the committee that are detailed as to the particular service, do not include delegation of the committee's responsibilities under the Securities Exchange Act of 1934 to the corporation's management, and the committee is informed of each service provided. The committee may delegate to one or more designated members of the committee the authority to grant pre-approvals, provided such approvals are presented to the committee at a subsequent meeting. Committee pre-approval of non-audit services (other than review and attest services) also will not be required if such services fall within available exceptions established by the Securities and Exchange Commission.



- (c) *Independence of the Independent Auditor.* The committee will, at least annually, review the independence and quality control procedures of the independent auditor and the experience and qualifications of the independent auditor's senior personnel that are providing audit services to the corporation. In conducting its review:
- (i) The committee will obtain and review a report prepared by the independent auditor describing:
    - The auditing firm's internal quality-control procedures.
    - Any material issues raised by the most recent internal quality control review, or peer review, of the auditing firm, or by any inquiry or investigation by governmental or professional authorities, within the preceding five years, respecting one or more independent audits carried out by the auditing firm, and any steps taken to deal with any such issues.
  - (ii) The committee will discuss with the independent auditor its independence from the corporation, and obtain and review a written statement prepared by the independent auditor describing all relationships between the independent auditor and the corporation, consistent with Independence Standards Board Standard 1, and consider the impact that any relationships or services may have on the objectivity and independence of the independent auditor.
  - (iii) The committee will confirm with the independent auditor that the independent auditor is in compliance with the partner rotation requirements established by the Securities and Exchange Commission.
  - (iv) The committee will, if applicable, consider whether the independent auditor's provision of any permitted information technology services or other non-audit services to the corporation is compatible with maintaining the independence of the independent auditor.

### **3.2 Annual Financial Statements and Annual Audit**

- (a) *Meetings with Management, the Independent Auditor and the Internal Auditor.* The committee will:
- (i) Meet with management, the independent auditor and the internal auditor in connection with each annual audit to discuss the scope of the audit, the procedures to be followed and the staffing of the audit.
  - (ii) Review and discuss with management and the independent auditor:
    - Major issues regarding accounting principles and financial statement presentation, including any significant changes in the corporation's selection or application of accounting principles, and major issues as to the adequacy of the corporation's internal controls and any special audit steps adopted in light of material control deficiencies.
    - Analyses prepared by management or the independent auditor setting forth significant financial reporting issues and judgments made in connection with the preparation of the corporation's financial statements, including analyses of the effects of alternative generally accepted accounting principles on the corporation's financial statements.
    - The effect of regulatory and accounting initiatives, as well as off-balance sheet structures, on the corporation's financial statements.
  - (iii) Review and discuss the annual audited financial statements with management and the independent auditor, including the corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."
- (b) *Separate Meetings with the Independent Auditor.* In separate meetings with the independent auditors, the committee will:
- (i) Review with the independent auditor any problems or difficulties the auditor may have encountered during the course of its audit work, including any restrictions on the scope of its

activities or access to required information or any significant disagreements with management and management's responses to such matters. Among the items that the committee should consider reviewing with the independent auditor are:

- Any accounting adjustments that were noted or proposed by the independent auditor but were "passed" as immaterial or otherwise.
- Any communications between the audit team and the independent auditor's national office respecting auditing or accounting issues presented by the engagement.
- Any "management" or "internal control" letter issued, or proposed to be issued, by the independent auditor to the corporation.

The committee will obtain from the independent auditor assurances that Section 10A(b) of the Securities Exchange Act of 1934 has not been implicated.

- (ii) Discuss with the independent auditor the report that the auditor is required to make to the committee regarding:
  - All accounting policies and practices to be used that the independent auditor identifies as critical.
  - All alternative treatments within generally accepted accounting principles for policies and practices related to material items that have been discussed among management and the independent auditor, including the ramifications of the use of such alternative disclosures and treatments, and the treatment preferred by the auditor.
  - Other material written communications between the independent auditor and management of the corporation, such as any management letter, management representation letter, reports on observations and recommendations on internal controls, independent auditor's engagement and independence letters, schedule of unadjusted audit differences and any listing of adjustments and reclassifications not recorded.
- (iii) Discuss with the independent auditor the matters required to be discussed by Statement on Auditing Standards No. 61, "Communication with Audit Committees," as then in effect.
- (iv) Discuss the responsibilities, budget and staffing of the corporation's internal audit function.
- (c) *Recommendation to Include Financial Statements in Annual Report.* The committee will, based on the review and discussions in paragraphs 3.2 (a)(iii) and 3.2 (b)(iii) above, and based on the disclosures received from the independent auditor regarding its independence and discussions with the auditor regarding such independence pursuant to paragraph 3.1 (c)(ii) above, determine whether to recommend to the board that the audited financial statements be included in the corporation's annual report on Form 10-K for the fiscal year subject to the audit.

### **3.3 Quarterly Financial Statements**

The committee will review and discuss the quarterly financial statements with management and the independent auditor, including the corporation's disclosures under "Management's Discussion and Analysis of Financial Condition and Results of Operations."

### **3.4 Internal Audit**

- (a) *Appointment.* The committee will approve the appointment and replacement of the internal auditor.
- (b) *Separate Meetings with the Internal Auditor.* The committee will meet periodically with the corporation's internal auditor to discuss the responsibilities, budget and staffing of the corporation's internal audit function and any issues that the internal auditor believes warrant audit committee

attention. The committee will discuss with the internal auditor any significant reports to management prepared by the internal auditor and any responses from management.

### **3.5 Other Duties and Responsibilities**

- (a) The committee will discuss with management and the independent auditor the corporation's earnings press releases (with particular focus on any use of "pro forma," "adjusted" or other "non-GAAP" financial information), as well as financial information and earnings guidance provided to analysts and rating agencies. The committee's discussion in this regard may be general in nature (a discussion of the types of information to be disclosed and the type of presentation to be made) and need not take place in advance of each earnings release or each instance in which the corporation may provide earnings guidance.
- (b) The committee will discuss with management and the independent auditor any related-party transactions brought to the committee's attention which could reasonably be expected to have a material impact on the corporation's financial statements.
- (c) The committee will discuss with management and the independent auditor any correspondence that is brought to its attention from or with regulators or governmental agencies, or any published reports that raise material issues regarding the corporation's financial statements, financial reporting processes, accounting policies or internal audit functions.
- (d) The committee will establish procedures for the receipt, retention and treatment of complaints received by the corporation regarding accounting, internal accounting controls or auditing matters and also establish procedures for the confidential and anonymous submission by employees of concerns regarding questionable accounting or auditing matters.
- (e) The committee will discuss with the corporation's chief legal officer any legal matters brought to the committee's attention that could reasonably be expected to have a material impact on the corporation's financial statements and periodically will meet separately with the chief legal officer to discuss legal matters and with the chief compliance officer to discuss compliance matters.
- (f) The committee will discuss with management the corporation's policies with respect to risk assessment and risk management, significant financial risk exposures and the actions management has taken to limit, monitor or control such exposures.
- (g) The committee will set clear hiring policies for employees or former employees of the corporation's independent auditor.
- (h) The committee will consider whether the corporation should adopt a rotation of the annual audit among independent auditing firms.
- (i) The committee will provide the corporation with the report of the committee with respect to the audited financial statements for inclusion in the corporation's proxy statement.
- (j) The committee, through its chair, will report regularly to, and review with, the board any issues that arise with respect to the quality or integrity of the corporation's financial statements, the corporation's compliance with legal or regulatory requirements, the performance and independence of the corporation's independent auditor, the performance of the corporation's internal audit function or any other matter the committee determines is necessary or advisable to report to the board.

## **IV**

### **Communications from Shareholders, Employees and Others**

Shareholders, employees and other interested persons who wish to communicate with the committee (including communicating complaints regarding the corporation's accounting, internal accounting controls or

auditing matters) may do so by writing to the committee care of the corporation's Corporate Secretary. Letters will be reviewed by the Corporate Secretary and relayed to the chair of the committee if the subject matter is within the duties of the committee, in a manner consistent with the screening policies adopted by the board. Employees may also submit concerns regarding questionable accounting or auditing matters by calling the corporation's Ethics Helpline at 800-241-5689 on a confidential and anonymous basis.

## **V**

### **Committee Self-Evaluation and Charter Review**

The committee will evaluate its own performance on an annual basis, including its compliance with this charter. It will also review this charter and provide the board with any recommendations for changes in the charter or in policies or other procedures governing the committee.

## **VI**

### **Charter Availability**

This charter will be posted on the corporation's investor website, and the posting and the availability of printed copies to requesting shareholders will be published in the corporation's Annual Report on Form 10-K. It will also be included as an appendix to the corporation's proxy statement no less frequently than every four years.



# **ATTACHMENT G**

Government Entities Receiving Notice



State of California  
Attorney General's Office  
P.O. Box 944255  
Sacramento, CA 94244-2550

City of Chula Vista  
Attn. City Attorney  
276 Fourth Ave  
Chula Vista, Ca 91910-2631

United States Government  
General Services Administration  
300 N. Los Angeles  
Los Angeles, CA 90012

State of California  
Attn. Director Dept of General Services  
PO Box 989052  
West Sacramento, CA 95798-9052

City of Coronado  
Attn. City Attorney  
1825 Strand Way  
Coronado, CA 92118

City of Carlsbad  
Attn. City Clerk  
1200 Carlsbad Village Drive  
Carlsbad, CA 92008-1949

City of Carlsbad  
Attn. City Attorney  
1200 Carlsbad Village Drive  
Carlsbad, CA 92008-19589

City of Dana Point  
Attn. City Attorney  
33282 Golden Lantern  
Dana Point, CA 92629

City of Encinitas  
Attn. City Attorney  
505 S. Vulcan Ave.  
Encinitas, CA 92024

City of Del Mar  
Attn. City Attorney  
1050 Camino Del Mar  
Del Mar, CA 92014

City of Escondido  
Attn. City Attorney  
201 N. Broadway  
Escondido, CA 92025

City of Solana Beach  
Attn. City Attorney  
635 S. Highway 101  
Solana Beach, CA 92075

City of Imperial Beach  
Attn. City Clerk  
825 Imperial Beach Blvd  
Imperial Beach, CA 92032

City of Laguna Beach  
Attn. City Clerk  
505 Forest Ave  
Laguna Beach, CA 92651

City of Imperial Beach  
Attn. City Attorney  
825 Imperial Beach Blvd  
Imperial Beach, CA 92032

City of Laguna Niguel  
Attn. City Attorney  
22781 La Paz Ste. B  
Laguna Niguel, CA 92656

City of La Mesa  
Attn. City Attorney  
8130 Allison Avenue  
La Mesa, CA 91941

City of Lemon Grove  
Attn. City Attorney  
3232 Main St.  
Lemon Grove, CA 92045

City of Laguna Beach  
Attn. Attorney  
505 Forest Ave  
Laguna Beach, CA 92651

City of Lemon Grove  
Attn. City Clerk  
3232 Main St.  
Lemon Grove, CA 92045

City of Mission Viejo  
Attn City Attorney  
200 Civic Center  
Mission Viejo, CA 92691

City of Mission Viejo  
Attn City Clerk  
200 Civic Center  
Mission Viejo, CA 92691

City of Oceanside  
Attn. City Clerk  
300 N. Coast Highway  
Oceanside, CA 92054-2885

County of Orange  
Attn. County Clerk  
P.O. Box 838  
Santa Ana, CA 92702

City of National City  
Attn. City Attorney  
1243 National City Blvd  
National City, CA 92050

County of Orange  
Attn. County Counsel  
P.O. Box 1379  
Santa Ana, CA 92702

City of National City  
Attn. City Clerk  
1243 National City Blvd  
National City, CA 92050

City of Poway  
Attn. City Attorney  
P.O. Box 789  
Poway, CA 92064

Naval Facilities Engineering Command  
Navy Rate Intervention  
1314 Harwood Street SE  
Washing Navy Yard, DC 20374-5018

City of Poway  
Attn. City Clerk  
P.O. Box 789  
Poway, CA 92064





City of San Clemente  
Attn. City Attorney  
100 Avenida Presidio  
San Clemente, CA 92672

City of San Diego  
Attn. Mayor  
202 C St.  
San Diego, CA 92010

City of San Clemente  
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Attn. County Clerk  
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202 C St.  
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City of San Marcos  
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1 Civic Center Dr.  
San Marcos, CA 92069

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202 C St.  
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City of Vista  
Attn. City Attorney  
PO Box 1988  
Vista, CA 92083

City of Vista  
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PO Box 1988  
Vista, CA 92083



# **ATTACHMENT H**

Service List



# CALIFORNIA PUBLIC UTILITIES COMMISSION

## Service Lists

**Proceeding: A0212028 - SDG&E - FOR AUTHORIT**

**Filer: SAN DIEGO GAS & ELECTRIC COMPANY (U 902-M)**

**List Name: LIST**

**Last changed: October 12, 2006**

[Download the Comma-delimited File](#)

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# **ATTACHMENT I**

Certificate of Service/Notice of Availability



## **CERTIFICATE OF SERVICE**

I hereby certify that pursuant to Commission's Rules of Practice and Procedure, I have this day served a true and correct copy of the attached **NOTICE OF AVAILABILITY** to the parties indicated in Section X of San Diego Gas & Electric Company's Test Year 2008 General Rate Case Application. Those parties without an email address were served by placing copies in properly addressed and sealed envelopes and depositing such envelopes in the United States Mail with first-class postage prepaid. Copies of the GRC Application, testimony and exhibits were delivered to the Department of Ratepayer Advocates.

Executed this 8th day of December, 2006 at San Diego, California.

  
Lisa Fucci-Ortiz



**BEFORE THE PUBLIC UTILITIES COMMISSION  
OF THE STATE OF CALIFORNIA**

Application of San Diego Gas & Electric Company for )  
Authority, Among Other Things, to Increase Rates and )  
Charges for Electric and Gas Service Effective on )  
January 1, 2008 )  
(U 902-M) )

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Application No 06-12-\_\_\_\_

**NOTICE OF AVAILABILITY OF  
SAN DIEGO GAS AND ELECTRIC COMPANY'S  
TEST YEAR 2008 GENERAL RATE CASE APPLICATION,  
TESTIMONY AND OTHER EXHIBITS**

PLEASE TAKE NOTICE THAT on December 8, 2006, San Diego Gas & Electric Company (SDG&E) electronically filed a its General Rate Case Application of San Diego Gas & Electric Company. Pursuant to Rule 1.9 of the Commission's Rules of Practice and Procedure, the GRC Application, testimony and other exhibits were made available on December 8, 2006, by 5:00 p.m. on SDG&E's website at:

[http://www.sdge.com/regulatory/tariff/cpuc\\_openProceedings.shtml](http://www.sdge.com/regulatory/tariff/cpuc_openProceedings.shtml)

The complete application includes prepared testimony and work papers. A testimony exhibit list is set forth below:

Attachments A through H, described below are a part of this Application:

Attachment A: Statement of Present and Proposed Rates – Electric Revenues

Attachment B: Statement of Present and Proposed Rates – Electric Rates

Attachment C: Statement of Present and Proposed Rates -- Gas

Attachment D: Cost of Property and Depreciation Reserve

Attachment E: Summary of Projected Earnings

Attachment F: Financial Statements and Proxy





Attachment G: Governmental Entities Receiving Notice

Attachment H: Service List

Attachment I: Certificate of Service/Notice of Availability

The complete application and testimony is several thousand pages long. SDG&E will upon request provide a copy of the application or any part thereof. SDG&E has all the foregoing materials available on compact disc, which SDG&E would prefer to provide in lieu of hard copy of the materials for ease of handling. SDG&E will, however mail hard copies of the documents to parties who request them. Copies of the GRC Application, testimony and other exhibits can be obtained by contacting:

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December 8, 2006

